

# Public Utilities

Volume 67 No. 3



February 2, 1961

## IMPACT OF DIVIDEND PAY-OUT ON PRICE-EARNINGS RATIOS

By Willard F. Stanley

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## Iowa Power's Franchise Victory in Des Moines

By L. E. Slade

< >

## Accounting for Gas Line Expansion Project

By Paul G. LaGrone

< >

## Reactions to the Landis Report

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VOLUME 67

FEBRUARY 2, 1961

NUMBER 3



### ARTICLES

#### Impact of Dividend Pay-out on Price-earnings Ratios ..... Willard F. Stanley 145

The author checks up on the impact of high dividend pay-out on utility stocks with respect to price-earnings ratios.

#### Iowa Power's Franchise Victory in Des Moines L. E. Slade 152

How one utility company won a vote of confidence from its customers in the form of a franchise renewal.

#### Accounting for Gas Line Expansion Project Paul G. LaGrone 158

A blow-by-blow description of the accounting phases in a pipeline expansion project proceeding.

### FEATURE SECTIONS

#### Washington and the Utilities ..... 174

#### Telephone and Telegraph ..... 178

#### Financial News and Comment ..... Owen Ely 181

#### What Others Think ..... 190

Reactions to the Landis Report ..... 190

U. S. and Foreign Depreciation Policies ..... 192

Satellites and the FCC ..... 196

#### The March of Events ..... 197

#### Progress of Regulation ..... 201

#### Industrial Progress ..... 15

#### • Pages with the Editors . 6 • Utilities Calendar .... 13

#### • Coming in the Next Issue 10 • Frontispiece ..... 14

#### • Remarkable Remarks .. 12 • Index to Advertisers .. 26

### PUBLIC UTILITIES REPORTS, INC., PUBLISHERS

#### Executive, Editorial &

Advertising Offices ..... 332 PENNSYLVANIA BLDG., WASHINGTON 4, D. C.

Publication Office ..... CANDLER BUILDING, BALTIMORE 2, MD.

#### Advertising Representatives:

New York 6: Robert S. Farley, 95 Liberty Street, Cortland 7-6638

Cleveland 15: Macintyre-Simpson & Woods, 1900 Euclid Avenue, CHerry 1-1501

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Subscriptions: Address correspondence to PUBLIC UTILITIES FORTNIGHTLY, circulation department, 332 Pennsylvania Building, Washington 4, D. C. Allow one month for change of address.

Single copies \$1.00. Annual subscription price (26 issues a year): United States and possessions, \$2.00; Pan American countries, \$15.00; Canada, \$16.00; all other countries, \$17.50.

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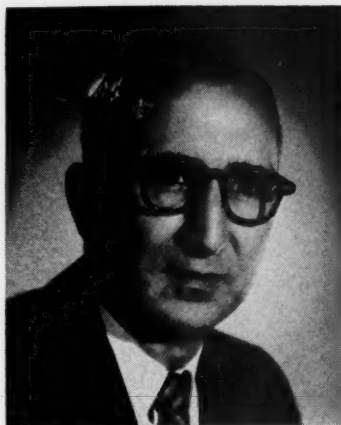
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# Pages with the Editors

As we go to press with this issue, the city of Washington, D. C., is in the throes of transition. The ritual of the inaugural ceremony is over, the sounds of the military bands and cheering crowds have died away. We look out of our editorial windows and see the grandstands being dismantled along Pennsylvania avenue. But the real impact of the new administration in Washington is just beginning to be felt in all the countless bureaus, agencies, and departments of the federal government and on our national economy as a whole.

THE swearing in of new Cabinet officials has been succeeded by the changing of many subordinate layers and tiers of authority. A new Congress sits on Capitol Hill to watch and debate new policies amid a climate of uncertainty and mounting international tension.

YET, this is not a novel experience for the nation's capital. One could easily go back not too many years to find even more extensive periods of change and dislocation. The inauguration of the New Deal in 1933 following twenty years of Republican occupancy in the White House, and the inauguration of the first

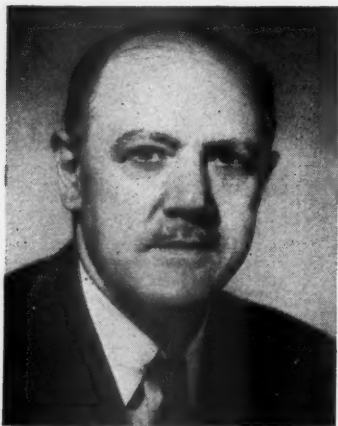


L. E. SLADE

Eisenhower administration in 1953 following another twenty years of Democratic occupation of the White House, marked even more extensive alterations on the Washington scene.

AND so although the party label of the Chief Executive changes once again, there is actually quite a bit of continuity despite the Changing of the Guard in Washington. The organization and leadership of the new Congress are the same as they have been for the past four years. Both major parties try to make a point of the cohesiveness of our foreign policies and the oft-repeated statement that our party politics stop at the water's edge. All told, veteran Washingtonians can probably take the whole thing in stride, unless their own tenures happen to be affected.

THERE have been some severe flutterings, of course, in the dovescots of our federal regulatory commissions. An avalanche of criticisms and reports and recommendations have stirred somewhat placid areas of routine operations which, some say, have been too placid or too routine. But again this is not a new story. It has all happened before and judging by the repetitious character of the criticisms and recommendations and proposed reor-



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ganization, a cynical observer of more than one generation might be tempted to say—as if he were looking at a 20-year-old movie on television —“I seem to have seen this all before.”

ANOTHER year, plus some more laws and regulations and appointments, and the regulatory scene will probably settle down as it always has during past upheavals. We could be wrong about this, of course, but as a betting proposition it is not a bad place to stake a few chips. After the charges and countercharges about shortcomings and reorganizations are out of the way, the federal commissions will find they still have the same bread-and-butter problems which constitute the real bull work of regulation. And management, too, in the public utility business will find that despite new names and new faces in Washington, or at the state capitals, the basic bread-and-butter problems have not changed very much.

ONE of the perennial management problems which will always be with us, no doubt, is whether to have a policy of high dividend pay-out on common stocks or a more conservative regard for building up corporate surplus. The first article in this issue comes to us from WILLARD F. STANLEY, financial analyst of Brooklyn, New York, who has written a number of analyses in the financial field. MR. STANLEY was curious about the impact of high dividend pay-out on utility stock with respect to price-earnings ratio. His article discusses a study he made of 115 electric utility companies which have followed various degrees of liberal dividend pay-out policy. This study seems to point to a definite correlation between high dividend pay-out and higher price-earnings ratio.

\* \* \* \*

THE article on Iowa Power and Light Company's franchise victory in Des Moines, beginning on page 152, comes to us from L. E. SLADE, vice president and treasurer of the Iowa Power and Light Company. MR. SLADE was the general chairman of a recent highly successful campaign by his company to win a fran-



PAUL G. LA GRONE

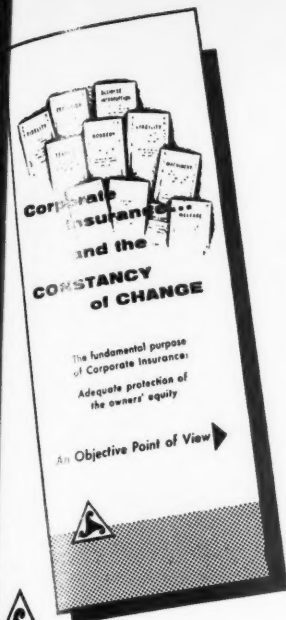
chise victory and his company did win it by a margin of 11 to 1. This article should be of interest and help to other companies faced with this periodical problem of renewing municipal franchises. It involved intelligent planning, hard work, and skillful techniques. In Iowa, as in many other states, public utility companies are faced with the problem of going before the voters who are also their customers and seeking what amounts to a vote of confidence in the form of franchise renewal.

\* \* \* \*

THE article on the importance of accounting in gas line expansion projects comes to us from PAUL G. LA GRONE, now associated with Arthur Andersen & Co. at that firm's office in St. Louis, Missouri. DR. LAGRONE is a native of Greenville, Mississippi, and a graduate of Bowling Green College, Kentucky (BS, '47), the University of Denver (MBA, '48), and the University of Alabama (PhD, '58). He served in World War II as a Lieutenant Commander in the Naval Air Force, and is also associate professor of accounting on leave of absence from the University of Arkansas.

THE next number of this magazine will be out February 16th.

*The Editors*



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# Coming in the Next Issue...

(FEBRUARY 16, 1961, ISSUE)

## THE LANDIS REPORT: BOON OR BANE?

Although the Kennedy administration has only been in office a few days, Congress has been deluged with a number of reports on what is wrong with the federal regulatory commissions and what to do about it. Some of these cover the same ground and some of the views are in conflict. But the shortest and best publicized was the report by James M. Landis, made at the request of President Kennedy immediately after his election last fall. Charles F. Phillips, Jr., assistant professor of economics, School of Commerce and Administration, Washington and Lee University, has made a cursory study of the Landis report in an effort to appraise the validity and shortcomings of its recommendations, as well as the views expressed. In summary, Professor Phillips feels that the Landis report leaves much unsaid and says much that might better be left unsaid.

## EARNINGS-PRICE RATIOS AND THE CURRENT COST OF COMMON EQUITY

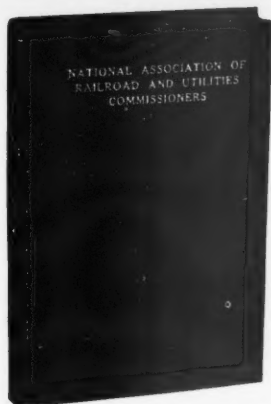
Have economic trends over the past few years raised new or stronger questions about the validity of earnings-price ratios and the current cost of economic equity, as a measure of the reasonableness of the return to be allowed a utility in a rate case? The author of this article, Arnold H. Hirsch, feels that they have and discusses his present viewpoints on the matter which he has reached only after serious consideration of the factors involved. Inasmuch as Mr. Hirsch has represented the consumer side or so-called "public interest" almost exclusively during the past thirty years, this latest statement may cause some raised eyebrows in regulatory circles. Nevertheless he has in this article, which features a number of charts and documented references, decided that in the foreseeable future, as distinguished from the period prior to 1960, the earnings-price ratio may no longer be a satisfactory gauge of the earnings-equity requirement.

## PLAIN SPEECH FOR BETTER COMMUNICATION

The most important public relations man for the average public utility company—where service routine customer contacts are concerned—is not necessarily the company's president or vice president or director of public relations. It may be the lineman who asks the housewife's permission before blocking her driveway, the meter reader who avoids stepping on a newly planted garden, the collection clerk who investigates an apparent deviation, and so forth. John Gunn, account executive of Bozell & Jacobs, Inc., sets down in this article some practical suggestions for inculcating some habits of plain and persuasive speech.

**AND IN ADDITION . . .** Special financial news, digests, and interpretations of court and commission decisions, general news happenings, reviews, Washington gossip, and other features of interest to public utility regulators, companies, executives, financial experts, employees, investors, and others.





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CHARLES DE GAULLE  
*President, Republic of France.*

"... the best way to assure the right kind of prosperity would be for the government to cut spending—say by about \$20 billion—and give the people a real chance. A government that did that would indeed be intelligent and useful."

"The nation's younger citizens will live under the hysteria of inflation throughout the rest of their lives—if it is not checked now. They will carry the load of our rising debts, and its growing interest payments—if we go on spending beyond our income."

"Rate cutting limitation is one of several inequalities that permit unfair and destructive competitive conditions which are sapping the economic vitality of essential rail transportation. Unless these conditions are corrected they will ruin the railroads as a private industry."

"There is no such thing as guaranteed annual progress. There must be incentives to attract investment capital and stimulate a continuation of the steady forward march of technology. Management must be alert to its responsibilities, and all who work must recognize that the only way to have more is to produce more."

"While this country has no monopoly on technical skill, venture capital, or high-grade industrial capacity, it is certainly the largest single bloc of such assets in the world today. As such, it is the pivotal position of economic strength for the entire free world. No free nation, no businessman anywhere, would benefit from policies that would allow the United States economy to deteriorate or in any way lose its expansive vitality."

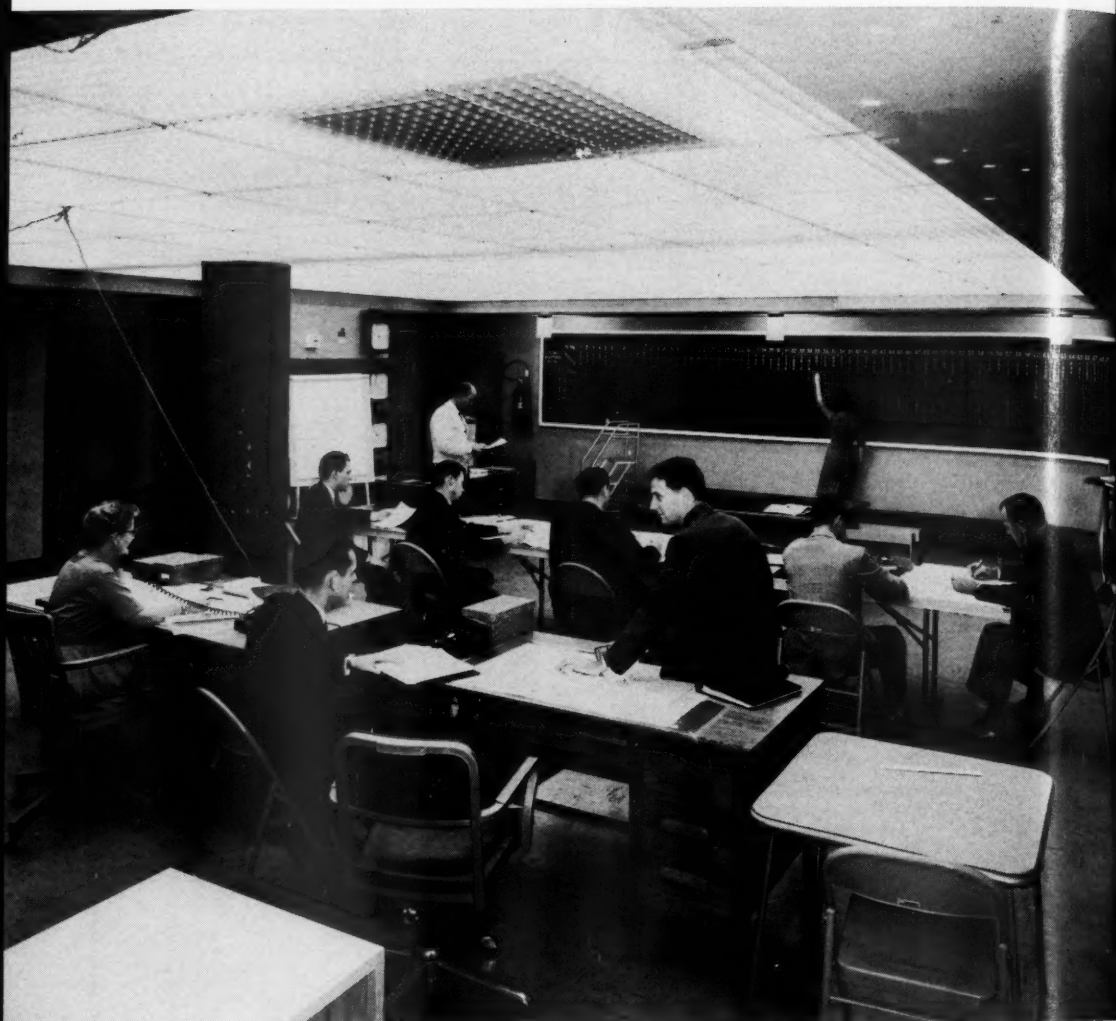
"In addition to restoring some semblance of managerial discretion to the people who have the responsibility for the successful operation of their respective railroad properties, the removal of 'horse-collar and horse-and-buggy' regulation which is long overdue, would be a great stimulant to the nation's lagging economy by virtue of the increased employment and vast purchasing power that would naturally result from a healthier railroad system."

"[If the arms race goes on] there is no end to the accumulation and the perfecting of the means of nuclear destruction capable of annihilating life over vast spaces. Given these elements the equilibrium of the world is no more than a cold war, a war that engenders fear, incites invective, and engulfs resources, and all problems appear insoluble and envenomed. France has made her choice. She has chosen to be on the side of free people; she has chosen to be there with you."

# Utilities Events Calendar

## CHECK THESE DATES:

- Feb. 2-3—American Gas Association-Edison Electric Institute, Accounting Conference, will hold final working meeting, Louisville, Ky.
- Feb. 2-3—Pennsylvania Electric Association, Prime Movers Committee, will hold meeting, Pittsburgh, Pa.
- Feb. 5-7—National Association of Purchasing Agents, Public Utility Buyers Group, will hold meeting, Detroit, Mich.
- Feb. 5-11—National Electrical Week will be held.
- Feb. 6-7—Edison Electric Institute, Sales Division, Commercial Lighting Committee, will hold meeting, New York, N. Y.
- Feb. 6-10—Western Winter Radio-Television and Appliance Market will hold western merchandise mart, San Francisco, Cal.
- Feb. 7-9—Electrical Manufacturers Exposition will hold biannual meeting, Columbus, Ohio.
- Feb. 8-9—Pennsylvania Electric Association, Transmission and Distribution Committee, will hold meeting, Harrisburg, Pa.
- Feb. 8-10—American Gas Association-Edison Electric Institute, Taxation Accounting committees, will hold meeting, Columbus, Ohio.
- Feb. 9-10—Missouri Valley Electric Association will hold industrial and commercial sales conference, Kansas City, Mo.
- Feb. 9-11—American Gas Association will hold home service workshop, Cleveland, Ohio.
- Feb. 9-11—National Telephone Co-operative Association will hold annual meeting, Dallas, Tex.
- Feb. 10-11—Air-Conditioning and Refrigeration Wholesalers will hold annual convention, Chicago, Ill.
- Feb. 13-14—Second Biennial Mid-Pacific Gas Merchandising Conference will be held, Honolulu, Hawaii.
- Feb. 13-15—American Management Association will hold midwinter personnel conference, Chicago, Ill.
- Feb. 13-16—American Society of Heating, Refrigerating, and Air-Conditioning Engineers will hold semiannual meeting, Chicago, Ill.
- Feb. 13-16—National Rural Electric Co-operative Association will hold annual meeting, Dallas, Tex.
- Feb. 14-15—Association of National Advertisers will hold co-operative advertising workshop, Chicago, Ill.
- Feb. 14-16—Electrical Trade Conference and Exposition will be held, Washington, D. C.
- Feb. 15—New England Gas Association, Street Department Supervisors Group, will hold meeting, Worcester, Mass.
- Feb. 15-17—Institute of Radio Engineers will hold international solid state circuits conference, Philadelphia, Pa.
- Feb. 15-17—Louisiana Telephone Association will hold annual convention, Shreveport, La.
- Feb. 15-21—American Bar Association will hold midyear meeting, Chicago, Ill.
- Feb. 16-17—Pennsylvania Electric Association, Engineering Section, will hold electrical equipment exposition, Pittsburgh, Pa.
- Feb. 16-19—Edison Electric Institute will hold national conference of electric and gas utility accountants, St. Louis, Mo.
- Feb. 19-22—Minnesota Telephone Association will hold annual convention, Minneapolis, Minn.
- Feb. 22-23—Annual Conference of Presidents of State Broadcaster Associations will hold meeting, Washington, D. C.
- Feb. 23-24—American Gas Association-Pacific Coast Gas Association will hold public relations workshop, Portland, Ore.
- Feb. 23-25—National Wiring Bureau will hold annual national wiring sales conference, Chicago, Ill.



*Courtesy, Iowa Power and Light Company*

### Awaiting the Election Returns

*A public utility company can have campaign and election return excitement as well as political candidates. This is a general shot of the election return board at campaign headquarters of Iowa Power and Light Company. The board shows reports of progress in voting received from 73 Des Moines precincts during the election tallying. The board keeps a running account of the total vote up to the final results. Other techniques of the campaign are discussed in the article in this issue beginning on page 152.*

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# Public Utilities

*FORTNIGHTLY*

VOLUME 67

FEBRUARY 2, 1961

NUMBER 3



## Impact of Dividend Pay-out on Price-earnings Ratios

By WILLARD F. STANLEY\*

The author made a careful study of the stocks of 115 electric utilities in an effort to learn if higher dividend pay-outs enhance the market prices by increasing price-earnings ratios. His results seem to indicate they do. However, the impact of higher dividend payments tends to diminish in power with extremely large electric utilities. These findings may apply to dividend pay-out policies in other utilities as well.

**D**o higher dividends lead to higher market prices? That is the perennially controversial question which has agitated utility managements and the financial fraternity generally for many decades. Will a dollar of earnings produce more in market value if distributed to stockholders? Or is there greater advantage to be obtained if the company

\*President, Corporate Services, Inc. Brooklyn, New York. For additional personal note, see "Pages with the Editors."

retains it and invests it in its business? There long have been and still are two emphatically conflicting schools of thought on this subject. Literally hundreds of thousands of words have probably been written and published about it by one side or the other and the issue still remains relatively undecided.

A recent test check made by the writer—while no claim is made that its results should be considered as conclusive—tends



## PUBLIC UTILITIES FORTNIGHTLY

to sustain the theory that higher dividend pay-outs seem likely to enhance market values by increasing the price-earnings ratios of utility equities; *i. e.*, what investors are willing to pay for each dollar of the per share earnings of these corporations.

ONE hundred and fifteen electric utility companies were used for the purpose of this survey, this segment of the overall utility industry being selected both because of its size and because it probably has a higher average percentage of dividend and pay-out than gas, telephone, or water utilities.

For the purpose of the test check, the 115 electric utilities were divided into three groups. Group (1) comprised those companies (27 in number) which paid out in dividends on their common stocks more than 75 per cent of their earnings. Group (2) includes 56 companies paying out 65 per cent or more but not over 75 per cent of their earnings in dividends. Group (3) applies to 32 companies with dividend pay-outs below 65 per cent of earnings.

The table below shows the average pay-outs of the three groups and also the percentage increase in pay-out of Group (2) over Group (3) and of Group (1) over Group (2):

GROUP (1) (27 COMPANIES)	
<i>Average Percentage Dividend Pay-out</i>	<i>Percentage Increase in Percentage Dividend Pay-out over Group (3)</i>
81.2	17
GROUP (2) (56 COMPANIES)	
	<i>Percentage Increase in Percentage Dividend Pay-out over Group (2)</i>
70.4	17
GROUP (3) (32 COMPANIES)	
60.2	

THE survey showed that the three groups above had the following average price-earnings ratios, with the following percentage increase thereof of Group (1) over Group (2) and Group (2) over Group (3), respectively:

GROUP (1) (27 COMPANIES)	
<i>Average Price-Earnings Ratio</i>	<i>Percentage Increase in Price-earnings Ratio Over Group (2)</i>
18.5	5
GROUP (2) (56 COMPANIES)	
	<i>Percentage Increase in Price-earnings Ratio Over Group (3)</i>
17.5	4
GROUP (3) (32 COMPANIES)	
16.8	

### What These Figures Indicate

FROM the foregoing it will be observed that the survey shows a consistent trend between increased percentage dividend pay-out and increased price-earnings ratios. The percentage dividend pay-out rises 17 per cent from Group (3) to Group (2) and the price-earnings ratio of the latter group rises 4 per cent over the former. Dividend pay-out increases another 17 per cent from Group (2) to Group (1) and a 5 per cent increase in price-earnings ratio is recorded for Group (1) over Group (2). This indicates that every 1 per cent increase in the percentage of dividend pay-out results in something a little below a 0.3 per cent increase in price-earnings ratio. The increase in price-earnings ratio inevitably leads to a similar increase in market value, assuming no change in per share earnings.

It is obvious that the impact of dividend pay-out should properly be related to price-earnings ratio rather than to market value, because the latter is affected by changes in per share earnings. Divi-



## IMPACT OF DIVIDEND PAY-OUT ON PRICE-EARNINGS RATIOS

dividend pay-out is not a factor (and cannot be) in determining per share earnings but it is an important factor in determining price-earnings ratio.

**A**VERAGE price-earnings ratio (according to C. A. Turner's statistical table for December, 1960, from which the figures used in the survey were derived) averaged nearly 18 times for the 115 electric utilities included in the table, while for the same period average dividend pay-out of such companies was in the vicinity of 70 per cent.

On this basis, if we assume an electric utility with \$1 per share of earnings for its common stock, selling at 18 times such earnings, or at \$18 per share and with a dividend pay-out of 70 per cent of earnings or 70 cents per share, a rise in such pay-out to 75 per cent or 75 cents per share (an increase in the pay-out percentage of about 7 per cent) might be expected to result in an increase of about 2 per cent in price-earnings ratio, which would thus be increased from 18 times to 18.36 times. This would increase market values accordingly from \$18 per share to \$18.36 per share. Thus, a five-cent per share increase in annual per share dividends would bring about an indicated increase of 36 cents per share in assumed market value, or about seven times the dividend increase, if we give effect to the results of the survey.

### Many Things Affect Price-earnings Ratios

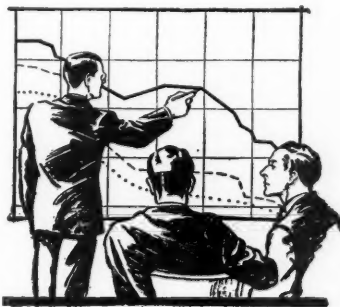
**P**PRICE-EARNINGS ratios are, admittedly, the result of a veritable host of factors, such as location and growth prospects of the properties, their size, capital structure of the company, aggressiveness

of its management, and rate climate, to name but a few. Among the important factors which contribute to determine price-earnings ratio is dividend pay-out policy. This is why price-earnings ratio rather than market value is the item most properly related to dividend pay-out. Following an increase in dividends and consequent increase in market value, such value might actually decline, due to adverse changes in the trend of per share earnings, but, despite this, price-earnings ratio might well remain the same, with the public still paying the same price for each dollar of earnings, but with market value reduced because the dollars of earnings had dwindled.

So, from the foregoing overall survey of electric utilities, it would appear that about 30 per cent of the increase in dividend pay-out might be expected as a fairly normal average to be carried over to increase price-earnings ratios.

### Variance with Kind of Utility

**B**UT may not the impact of dividend pay-out vary considerably with the size and standing of utilities? The foregoing compilations are on an industry-wide basis for electric utilities. As a fur-



## PUBLIC UTILITIES FORTNIGHTLY

ther test of the subject the three basic groups were each subdivided into three subgroups, as follows: Subgroup (A) comprised those companies with more than \$60 million of gross annual operating revenues; Subgroup (B), companies with annual gross revenues from \$25 million through \$60 million; and Subgroup (C) included those companies with revenues below the \$25 million mark. Coincidentally, the three subgroups each comprise about the same number of electric utilities.

As a result of this test check it was found that there is a considerable variation in the impact of dividend pay-out on price-earnings ratios according to the size and standing of the companies involved. Whereas the overall trend indicated above was followed as regards Subgroups (B) and (C), this trend was not applicable with respect to Subgroup (A)—the subgroup of companies with revenues over \$60 million and therefore comprising the largest and best known electric utilities in the nation.

THE tabulations on page 149 show the same information given above for the overall electric utility industry, broken down to reflect each of the three subgroups named above.

It will be observed from these tabulations that in Subgroup (C) (small-sized electric utilities), an average increase of 23 per cent in dividend pay-out in Group 2 over Group 3 results in a 9 per cent increase in Group (2) over Group (3) with respect to price-earnings ratio. Also, that in the same subgroup, an increase of 15½ per cent in dividend pay-out for Group (1) over Group (2) brings about a similar 9 per cent increase

in price-earnings ratio for the same two groups.

In Subgroup (B) (comprising the medium-sized companies), higher dividend pay-outs in Groups (1) and (2), respectively, as compared with Groups (2) and (3) result in average increases of 6½ per cent as to price-earnings ratio for the two comparisons made as to this subgroup. The increase in price-earnings ratios in the higher dividend brackets for these two subgroups, therefore, works out to an average of nearly 8 per cent, which compares with an average for these two group comparisons of 4½ per cent with respect to the survey of the overall electric utility industry.

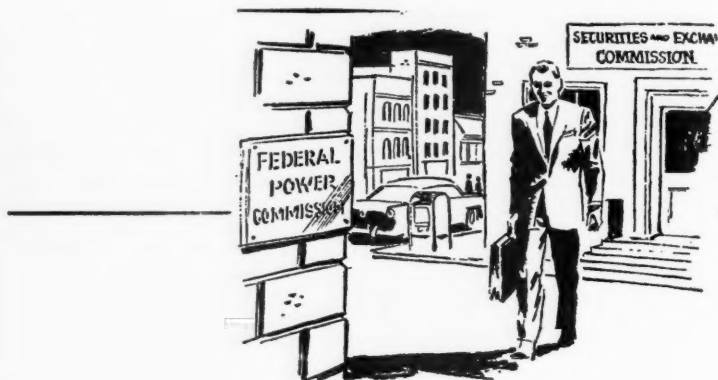
THE pattern of consistent increases both in dividend pay-out and price-earnings ratio is broken, however, by Subgroup (A) results, where the tabulation shows that despite considerable percentage increases in dividend pay-out as between the various groups, the price-earnings ratios thereof are practically the same. Group (2) shows a 2 per cent increase over Group (3), but Group (1) indicates a 1 per cent decline from Group (2). It is apparent from the foregoing that the relation of higher dividend pay-out to higher price-earnings ratios applies principally to the medium- and smaller-sized electric utilities, in this case those with less than \$60 million of annual gross revenues. This comprises 72 of the total of 115 companies dealt with in the survey.

This change in pattern with respect to large companies is not unreasonable in view of the fact that other factors, such as size and better acquaintanceship with the public, would tend to make the larger

# IMPACT OF DIVIDEND PAY-OUT ON PRICE-EARNINGS RATIOS

SUBGROUP (C) (36 COMPANIES)			
Group (1) (9 Companies)			
<i>Average Percentage of Dividend Pay-out</i>	<i>Per Cent Increase in Percentage of Dividend Pay-out Group (1) over Group (2)</i>	<i>Average Price-earnings Ratio</i>	<i>Per Cent Increase in Price-earnings Ratio Group (1) over Group (2)</i>
82	15.5	18.4	9
Group (2) (19 Companies)			
	<i>Per Cent Increase in Percentage of Dividend Pay-out Group (2) over Group (2)</i>		<i>Per Cent Increase in Price-earnings Ratio Group (2) over Group (3)</i>
71.1	23	16.9	9
Group (3) (8 Companies)			
58.5		15.5	
SUBGROUP (B) (36 COMPANIES)			
Group (1) (8 Companies)			
<i>Average Percentage Dividend Pay-out</i>	<i>Per Cent Increase in Percentage Dividend Pay-out over Group (2)</i>	<i>Average Price-earnings Ratio</i>	<i>Per Cent Increase in Average Price-earnings Ratio over Group (2)</i>
81.5	16.4	19.00	10
Group (2) (17 Companies)			
	<i>Per Cent Increase in Percentage Dividend Pay-out over Group (3)</i>		<i>Per Cent Increase in Average Price-earnings Ratio over Group (3)</i>
70	13.0	17.3	3
Group (3) (11 Companies)			
62		16.9	
SUBGROUP (A) (43 COMPANIES)			
Group (1) (10 Companies)			
	<i>Per Cent Increase in Percentage Dividend Pay-out over Group (2)</i>		<i>Per Cent Increase (or ( ) Decrease) in Average Price-earnings Ratio over Group (2)</i>
80.4	15	18	(1)
Group (2) (20 Companies)			
	<i>Per Cent Increase in Percentage of Dividend Pay-out over Group (3)</i>		<i>Per Cent Increase in Price-earnings Ratio over Group (3)</i>
70	17	18.2	2
Group (3) (13 Companies)			
60		17.9	

## PUBLIC UTILITIES FORTNIGHTLY



and (in most cases) older companies, more popular with the investing public than the smaller and less known situations without a long history of dividend payments. This popularity would tend to create price-earnings ratios at relatively high levels regardless of dividend pay-out. It is, therefore, indicated by the survey that dividend pay-out becomes a factor of dwindling importance in determining price-earnings ratios with progressive increase in size and age of electric utility companies.

**I**F Subgroup (A) (the large companies) is eliminated from the computation, we find that the average increase in price-earnings ratio of about 8 per cent registered with respect to Subgroups (B) and (C) combined, compares with an average increase in dividend pay-out of about 17 per cent for the same two subgroups. In these categories of medium and smaller companies it is therefore indicated that each 1 per cent increase in dividend pay-out percentage results in an increase of 0.45 per cent in price-earnings ratio. This compares with an increase of a little below 0.3 per cent in the latter

item for each 1 per cent increase in the former with respect to the same relations applied to the overall average of 115 electric utility operating companies included in the computations.

**I**N Subgroup (A), two companies were eliminated from the survey, both as to that subgroup alone and for the overall results appertaining to the entire electric utility industry. These two companies are exceptional growth situations, with dividend pay-outs phenomenally low and price-earnings ratios unusually high. It seems probable that the dividend pay-out has been kept low deliberately to make the stocks more appealing to those desiring to invest in growth situations and having high income tax brackets, where the desire is for price appreciation and not for income, on which extremely high tax rates must be paid. Whether these companies would sell at higher price-earnings ratios if their dividend pay-outs were increased is problematical, but because of their special characteristics it seems proper to eliminate them from the averages for the purpose of the survey.

## IMPACT OF DIVIDEND PAY-OUT ON PRICE-EARNINGS RATIOS

### Trend Suggested by Survey

**T**HE trend of the survey seems to indicate that higher dividend pay-out is usually accompanied by higher price-earnings ratios, and, accordingly, by higher market prices, except in cases of extremely large utilities, where other factors overshadow the importance of dividend pay-out policy. Even in the group of companies with revenues above \$60 million a year, while the averages indicate dividend pay-out has little or no effect on price-earnings ratios, it is probable that in the case of a considerable number of companies, high dividend pay-out is accompanied by high price-earnings ratios. The figures developed for the subgroups seem to indicate that, generally speaking, the smaller and less known a utility may be, the greater impact dividend policy is likely to have on its price-earnings ratio.

It will be observed from the above tabulations that the greatest dividend impact is in the group of smallest companies (under \$25 million annual revenue) and that on a broad, average basis,

the impact of dividend pay-out grows progressively weaker as the size of the companies increases.

### Same Results May Occur in Other Utilities

**I**t seems reasonable to assume that what is true of the electric utility industry should apply with generally equal force to dividend pay-out in the case of natural gas transmission and distribution companies, water companies, and telephone companies.

It is well to recall that, assuming higher dividends can reasonably be expected to produce higher market value in a majority of cases, the higher market levels so produced will not only benefit the holders of the stock directly, but will also benefit both the stockholders and the company itself by enabling the company to sell additional common stock, which may have to be distributed to finance expansion, at a higher price, and, accordingly, with less dilution to the stockholders and with lower money cost to the company.

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**"W**E must be alert to challenge the panacea of the 'crash' approach as a rationalization for colossal spending in the name of growth.

"These are the illusions that—instead of advancing our economy—can slow down and ultimately destroy our capacity to build our economy well and securely. I suggest that our watchword be 'Growth without Illusions.'

"The goal of growth must be more solidly grounded than on economic wishfulness. We have a complex, delicately structured economic system, in which investment and productivity and monetary policy play key rôles. We certainly cannot take for granted the expectation that our economy has a built-in immunity to inflation. In the past ten years almost half of the free-world countries—29 out of 67—have had price increases of 50 per cent or more. Let's not buy another illusion—that it can't happen here. . . ."

—MAURICE H. STANS,

Former Director, Bureau of the Budget.



# Iowa Power's Franchise Victory in Des Moines

By L. E. SLADE\*

VICE PRESIDENT AND TREASURER, IOWA POWER AND LIGHT COMPANY

This is an interesting account of how an Iowa utility carefully planned and executed a soft sell campaign to ensure a "yes" vote in a 25-year franchise election. The deft and thorough manner in which the job was handled is doubtless a reflection of the skill acquired by this company in the more than 100 successful franchise elections it has participated in during the past ten years.



**M**ANY utility companies are faced at various times with a difficult problem, resulting from the expiration of a franchise.

We in Iowa, because all franchises in this state must be ratified in special balloting in the cities, have somewhat more experience with franchise elections than most. Our company, for example, has held more than 100 of them successfully in the past ten years.

At the same time we all know elections can be and have been lost—and that the consequent costs of lost markets or going back to the electorate to try it all over once more can be extremely costly.

Early this year we were advised to seek new 25-year franchises, the maximum under Iowa law, for our major market, Des Moines. We needed to update our fran-

chises there in advance of a new financing program.

This franchise election in a major city of a quarter of a million people, involving both gas and electric service, was to us "*the franchise election*," regardless of our repeated successes in the past.

What we learned in this big one about our own abilities and capabilities, plus some right things to do, we are happy to share with other utilities sure to face this ever-recurring task.

**W**INNING this election was not a simple problem. In fact, one set of close advisers urged that we were making a mistake ever to seek the change. They said we were better off to live with the old franchises than to risk putting new ones before the electorate. Another advisory group urged a two-year delay while we "built image."

\*For additional personal note, see "Pages with the Editors."



## IOWA POWER'S FRANCHISE VICTORY IN DES MOINES

We decided, however, that the rewards were greater than the dangers and went ahead, and as it turned out the dangers present, we are convinced, sharpened us for the job. Because of them we learned the lessons that can be of greatest value to others.

We planned and did the job in detail and the follow through paid off. The margin of victory was a resounding 11-to-1 favorable vote ratio. The final tally was virtually identical on both gas and electric, although a recent heavy gas rate increase was one of our knottiest problems.

### Our Plan of Strategy

**H**ow was it done? What did we learn?

First, we took stock of our position. A gas rate increase of 23 per cent had become effective the winter before. We had had no help from the weather either. The heating season had been long and late in an unusually cold winter. We were still explaining the reasons for this into the summer months and we were not saved by our true explanations that the large increase was obtained only after the company had absorbed a whole series of pipeline rates without an increase in a number of previous years.

This was a severe problem. The extent of it was reflected in surveys of customer opinion, where our gas division was rated as most "highly profit minded" among utilities studied in contrast to more favorable and usual attitudes toward our electric service.

Another thing we had to consider was that our contact program with customers had not been too extensive. The great majority of them had their only direct person-to-person business with us in the payment of their monthly bills.

At the same time another Des Moines utility—the transit company—was having its troubles. While these are being worked out by that company now, the spotlight on transit had resulted in new talk of municipal ownership.

In addition, the history of special elections in Des Moines has been stormy. There have been some stout election fights. Our Iowans seem to like political arguments. One problem was certainly to keep our election on the positive, non-controversial side. We would have to explain our subject very carefully and thoroughly to an electorate schooled to asking, "Where's the fight?"

Our stock taking, therefore, told us that for this variety of reasons as stated we would need to proceed with extra care.

### Public Relations Help Enlisted

**N**EXT, we sought strong outside professional counsel—people who had dealt for years with the problems of communications to the public in many fields, who knew organization and were experienced in the utility business. We chose Campbell-Mithun, Inc., a large midwestern advertising agency, to join us in our planning of the campaign.

Finally, with Campbell-Mithun, we drew up a plan, setting up the objectives and strategy for follow through. This plan, incidentally, was completed on July 26th and approved by our board of directors on July 27th with the promise of N. Bernard Gussett, chairman of the board, that it would be carried through "within sixty days." We made it, the election victory being achieved almost exactly sixty days later on September 26th.

The plan was rather simple. Execution

## PUBLIC UTILITIES FORTNIGHTLY

of it sometimes was not, but we did carry through on the basis of the original strategic design.

**I**N essence this plan called for three phases of election campaign activity:

1. Preliminary community contact and organization work.
2. Two weeks of canvassing before election day.
3. Election day follow through (September 26th).

The key was strategy designed quietly to contact all interested groups, informing them about the election in advance, keeping the subject noncontroversial. During this period the idea was to use the "soft sell" with no more than routine publicity. At the same time we would use the early weeks to build and perfect a campaign organization around the strength of the 1,080 Des Moines employees of the company preparing the

teams of people that would finally be capable of pre-election canvassing and getting voters to the polls on election day.

### Organizing Our Work Force

**B**ASIC to the success of the campaign was organizing the total force of the employees and making it effective against the total community—a quarter of a million people with slightly more than 100,000 registered voters.

A. Paul Thompson, president, named a steering committee. This was a five-man group. I was the general chairman. The other members were executives of the company, plus the on-the-scene representative of Campbell-Mithun.

Employees were then organized in two sets of committees, first for preliminary contact of the community with a later shift to an organization covering the 73 voting precincts of Des Moines. The shift was made for the canvassing phase, the final two weeks prior to election day.

Worker pledge cards were used to enroll employees and their wives as campaign volunteers. Pledge cards were also used to enlist the aid of supplier, related industry, stockholders, and retired employee groups. Purpose of this was to build up a solid core of company friends while at the same time recruiting the workers required to canvass the city.

### Names of Voters Obtained

**I**N order to concentrate effort it was determined early that having the list of registered voters would step up the efficiency of voter contact, giving us specific people to call on rather than depending on a hit-or-miss, door-to-door effort.

Microfilm processes were found to be



## IOWA POWER'S FRANCHISE VICTORY IN DES MOINES

an efficient way of transcribing voter registration cards. These cards are public records and are available in rather cumbersome books to remove from city hall. By using microfilm, however, we were able to secure the record. The city was grateful that we used this procedure.

The efficient use of our employee organization, augmented by additional volunteers, and the fact that we had specific names of voters on which to call enabled us to carry out on schedule a contact and canvassing program that reached 67 per cent of the eligible voters in the city.

In our canvassing we were able to classify voters as to their favorable attitudes. It was these upon whom we concentrated effort in getting voters to the polls on election day.

We had the problem of a relatively favorable position with the public on electricity with stronger negatives on gas due, of course, to the gas rate increase previously described.

In this situation we needed a favorable vote on both and had to carry on the campaign in such a way that we would finally inform our voters of the need for voting "Yes" on two proposals.

**T**HIS problem, as it turned out, was successfully solved. In fact, we came out of the election with virtually identical votes and ratios on the two measures, actually a few more votes for gas.

This was accomplished by following a careful procedure. Our campaign was built originally around electricity. We used an electric light bulb symbol in our promotion material, together with a positive and noncontroversial theme idea, "Let's Help Our City Grow."

Then as the campaign developed, and we were able to keep controversy out of the proposals, we had a chance to make a switch in emphasis. This came about because we had a choice of which franchise ordinance would be placed first on the ballot. We chose gas and this decision accounted for the slightly higher vote for this franchise.

Our theme and symbol were used from the outset of the campaign, of course, in letters, fact sheets, question-and-answer material, and other organization phase information.

The same theme was continued in our later information, together with the emphasis that two votes, one on each franchise, were necessary.

Campaign material used in the late phases of the campaign included large and small "Vote Yes" lapel buttons, campaign brochures, and posters.

The large "Vote Yes" buttons were worn for identity by our canvassers. Householders were told in advance that they would be called on by a letter sent to all customers just in advance of the start of the canvassing. This letter from the company president asked for favorable consideration and voting action in a noncontroversial election. Enclosed with the letter was a campaign folder and a small "Vote Yes" button.

### Advertising Also Employed

**A**DVERTISING was held back until the final days of the campaign, being confined wherever practical, in fact, to the three days preceding the election. Two newspaper ads were used, one stressing the company position and the other a more detailed story of the reasons for a

## PUBLIC UTILITIES FORTNIGHTLY



favorable vote over the "signature" of 1,080 Des Moines employees of Iowa Power and Light Company.

Information used in the campaign stressed key contributions of the company and its employees to the growth of Des Moines. It gave facts on the expansion in service, the dollar cost of the construction program in the city, the company's rôle as an employer and as the city's largest taxpayer. It stressed the fact that the company and its predecessors had been serving Des Moines for more than a century, some of its franchises dating back nearly that far.

Publicity for the campaign was confined to careful reporting of facts, most of the news resulting from the various official acts necessary to the setting up of the plan for the election. This policy was aided by the fact that in Iowa franchise action is taken in a series of steps. The company first applies to the city council for franchise action. Then the council acts on the proposal in a series of "readings."

Each step was the occasion for further action. Each was also used by the com-

pany for the issuance of a careful statement of the situation as it had developed to that point. Each statement was made by the company president addressing the council, with copies made available to the press.

### Soft Sell Used on "Press"

**I**N its relations with the press the company contacts stressed the business necessity for the action and that company officials were ready to answer any and all questions about the franchise proposals.

The result of this careful, soft sell approach was gratifying in final editorial support. Editors were able to make their own appraisals of the situation. The general conclusion was that a "Yes" vote on the two franchise proposals "will help our city grow." This in the above words was the exact conclusion, in fact, of the famed *Des Moines Register and Tribune*.

In the meantime group and individual contact was gaining support and cooperation. Working favorably for the proposal was the League of Women Voters, chamber of commerce groups,

## IOWA POWER'S FRANCHISE VICTORY IN DES MOINES

Des Moines Taxpayers' Association, and many individual companies, which with letters to their employees gave information on the campaign and recommended favorable votes. Local 499, IBEW, worked actively for the proposal and the company had the support of organized labor.

The payoff came in creating the background of opportunity and organized company readiness to stage a final election day effort that delivered the following favorable vote by a margin of nearly 11 to 1:

Gas franchise	Yes	15,586
	No	1,481
	Total	17,067
Electric franchise	Yes	15,577
	No	1,466
	Total	17,043

THIS victory for the franchises caused the *Register and Tribune* to editorialize following the election in these words as part of a lead editorial on the subject:

The company deserves praise for the intensive campaign it waged to get Des Moines citizens informed about the issue and to get them to vote. The political parties could learn something from Iowa Power on this question of stirring up voter interest. It even microfilmed the records of all registered voters so that they could be contacted before the election.

Company employees discussed the question at meetings of virtually every organization in town; customers got

company literature on time. There have been more "Yes" buttons, calling attention to the election, around town than all the combined buttons of political parties and candidates.

The story of this victory, of course, contains much more detail than can be used here. We at Iowa Power have samples of material, for instance, that we would gladly share on request with our fellow utility people.

CERTAINLY we gained new experience and accomplishment in this task in Des Moines—"the franchise election"—for us.

The victory helped us greatly.

We are thoroughly updated as to our franchises for the next twenty-five years in our major market.

The franchise ordinances as drawn were kept simple. They protect the city's tax interest in the success of the company in Des Moines while placing a reasonable limit on those taxes.

They have paved the way for new financing.

Above all, perhaps, are the rewards due to the job done by employees. They have better prepared themselves and the company for a brighter future of accomplishment. They have gained for themselves and the company new public stature as the result of active new contact with thousands of our customers, and new ability as a group to sell constructive, positive ideas of service to Des Moines and all our area communities.



# Accounting for Gas Line Expansion Project<sup>1</sup>

By PAUL G. LaGRONE\*



Plenty of hard thinking goes into planning a pipeline expansion. And accounting techniques play a major part. Costs must be assembled; analyzed; projected in terms of budgets and procedures. Here is an illuminating report of accounting's rôle—from the time early studies are made to when a project is shown economically feasible, and from the time a certificate of convenience is granted until it is recorded in the plant account records.

## The Position of the Accountant

**T**HE accounting needs for a proposed pipeline expansion prior to the time the project is presented to the Federal Power Commission are to a large extent the direct concern of departments other than the regular accounting staff. Mutual co-operation among all departments is essential. The information gathered by the company departments is made

available to the accounting department, which must assume responsibility for the entire project and particularly for the decision whether or not the enterprise will likely be profitable to the company.

The findings and calculations arrived at by the accountants charged with the responsibility for justifying a proposed pipeline expansion are embodied in pro forma statements which are sent to the Federal Power Commission. The pro forma statements include the following: (1) the total revenues expected; (2) the total operating expenses; (3) the cost

<sup>1</sup> The preponderance of information in this paper has been obtained through interview.

\*Staff member, Arthur Andersen & Co. St. Louis, Missouri. For additional personal note, see "Pages with the Editors."



## ACCOUNTING FOR GAS LINE EXPANSION PROJECT

of services; and (4) the cash statements. Before it grants final approval, however, the commission customarily examines the data submitted and hears detailed explanations from company personnel.

THE application for such a project also includes estimates of the total revenue to be derived as determined from the current price of natural gas and the volume that the company expects to sell. Estimated expenses are likewise shown. The total revenue may be shown as one figure on the statement presented to the commission, but to arrive at that figure it is necessary to estimate the price and volume of gas to be sold both to domestic and industrial consumers, the figures for the latter depending on the price of coal and oil. The commission further requires that this information be projected for three years into the future and include prospective increases in volume and price.

In each pro forma income statement, the cost of gas purchased for resale is shown as a separate item. This cost is generally more than half the total operating expenses of a proposed expansion. In some cases operation and measurement expenses are classed together, and, in others, operation and maintenance are grouped together.

One company found that in its annual operation, expenses for the pipeline amounted to 15 cents on the dollar invested in the line, and expenses for compressor stations amounted to 22 cents. General and administrative expenses amounted to 53 per cent of the total operation and maintenance. The same expenses for another company were only 35 per cent.

Depreciation on plant equipment is considered to take place at an annual rate of approximately  $3\frac{1}{2}$  per cent. If available, the companies, however, generally prefer to use defense plant amortization (that is, the privilege of depreciating their equipment over a period of sixty months); and they set up an account for deferred federal income tax to smooth out the income over the life of the line. The reason, of course, is obvious: The officials of the corporation are counting on a decrease in corporate taxes, from which they would gain considerably in the long run.

Furthermore, they accumulate working capital at no added cost.

### Cost of Service

"COST of service" must be included in the pro forma statement. The gas purchasing department furnishes the cost of gas, which is determined from contracts. Such items as operation and maintenance are usually based on experience, and that part of engineering not capitalized is included in operation and maintenance. Perhaps the two most important items under "cost of service" are transportation of the gas and operation. The total cost of transportation is based on experience with existing pipeline and compressor installations. The cost of operation is determined from two factors: One-half of the cost depends on the size of the line, and one-half depends on the length of the line. It is cheaper, incidentally, to "loop" new lines; that is, to run them parallel with existing lines so that wherever possible they will be on the same property as other company structures. The total cost of operating the new

## PUBLIC UTILITIES FORTNIGHTLY

line is computed on a diameter and mile base from actual cost.

The expense of the compressor station depends upon whether it is a reciprocating or centrifugal pumping station. The actual cost of operating stations with like horsepower may, of course, be determined on the basis of cost per horsepower. Sometimes the cost per unit of an established compressor station is applied to the one of new design.

### Cash Statements

**I**F several communities petition the Federal Power Commission for a transmission line to supply them with natural gas and the transmission company considers the proposals, the transmission company must make economic studies to determine whether the project is feasible. Accordingly, the company makes cost studies, after which it may decide to undertake the financing of the project with its own funds. The question arises as to how it knows that the funds are available for this particular project. This information is furnished by the accounting and engineering departments, which pre-

sent cash statements showing how the funds have been generated within the company. These statements are of particular significance in the matter of determining whether the company can make the expansion with its own funds or will have to raise them from other sources.

Some companies use the cash flow statement for operations and construction, rather than a formal budget. They believe that a cash flow statement which projects the requirements for cash ahead for two or three years is much more valuable than a formal budget made at the beginning of the year and not considered during the year. The cash flow forecast is revised every thirty days for the succeeding month and indicates how the flow is to be spread over the entire year.

**S**UCH emergencies as strikes in the steel mills occurring at the time an expansion program is timed may cause a transmission company to "shift" its cash to a future period when materials can be delivered. In order to anticipate such need for funds, company officials must have cash flow statements. Only in this way can they know at any time the probable requirements for funds. Without the knowledge afforded by the cash flow statement, management may be forced to borrow funds prematurely, thereby increasing the cost of the project by the amount of interest on such funds.

The cash flow statement is valuable in still another connection. Engineers can make a new estimate of the cost of the project when it is half completed, taking into consideration any additional expenses that they have encountered. If, on the



## ACCOUNTING FOR GAS LINE EXPANSION PROJECT

other hand, they find that the cost is running a million or two under the original estimate, they can reduce the cash needed for construction by the amount and sometimes save considerable interest on loans.

### Cost and Planning

**I**N view of possible future growth and normal fluctuations, designers of pipelines provide the most flexible arrangement of cost possible consistent with the economy. Depending on circumstances, one size of pipe and amount of horsepower may entail excessive financial risk, whereas another size and amount may be perfectly feasible. An increase in capacity may be provided by one or more of the following three methods: by adding units to existing compressor stations, by installing intermediate pumping stations, and by looping; that is, by adding an additional line parallel to the existing line and providing cross connections.

The selection of a method of expansion involves detailed economic studies of each alternative to determine initial and future costs, reliability, and flexibility of operations.

### The Main Problems of a New Line

**F**OR the proposed line, officials of the company usually stipulate certain conditions which normally include the volume of gas to be transported and the points of origin and termination. Bearing these stipulations in mind, the estimators consider the cheapest and easiest route to follow. It is obvious, of course, that a line would not be placed down through a swamp if a closely adjacent route

would afford better terrain. Factors other than terrain also influence the route; officials may, for example, want to pass near a prospective supply of gas to reduce later cost of transmission.

Pipelines have certain control points which may be interpreted in terms of money. A crossing of the Mississippi river may cost millions of dollars; for example, the Tennessee Gas Transmission Company's bridge at Greenville, Mississippi, cost \$4 million. In all cases, of course, lines must be routed to take advantage of the few places where the Mississippi river can be crossed.

**A**NOTHER control point for the pipelines is the crossing of property near cities. Since the building code for pipelines requires that the greater the population of the area through which the line goes the thicker the line must be, a line near a city may cost twice as much as the same size line in unpopulated areas. Any line near a city also has high cost for a right of way and for such special construction as ditching through streets. Transmission companies which sell to resale purchasers, therefore, find it much to their advantage to run lines as far away from populated areas as possible, especially since in case of breaks in the line, damage and injury are minimized. These facts considered, the route is determined otherwise according to economic considerations, just as are other phases of the new line.

The accountant plays an important part in the many problems facing a company contemplating expansion involving huge outlays of money. One company whose experience illustrates these prob-



lems may be referred to; namely, Southern Natural.

SOUTHERN'S study was aimed at discovering the most economical manner in which the Gwinville-Elmore line<sup>2</sup> might be increased in capacity. Computations with varying loads up to 280 million cubic feet per day were considered for the following plans:

1. Adding loops of the same size to the 18 x 5/16 line.
2. Installing a single mid-point compressor station between the two terminals and subsequently adding loops as needed.
3. Installing two compressor stations at points trisecting the line between the two terminals.

Pressure in an operating line, of course, decreases from the point it leaves one compressor station until it is picked up at another. In this particular line, the pressure starts at 1,200 pounds per square inch; as the natural gas moves along, its

pressure decreases until the compression ratio is approximately 1.4 (850 pounds), which is considered to be the most economical operating ratio. At this point a compressor picks up the gas and returns its pressure to 1,200 pounds per square inch.

IN a study to determine the economics of increased capacity between Gwinville, Mississippi, and the Elmore station (which was plotted from cost studies), the cost for investment in new facilities for a single line without loops was found to decrease as volume increases. The decrease in total investment continued to a point where the volume of gas is flowing at the rate of 155 Mcf per day. It is at this point that moving the desired volume of gas becomes a problem, for this is the maximum volume that can be moved through the line with the original pressure. The problem is one of compression economics rather than pipeline economics.

This raises the question as to why the single line without loops, which shows a decreasing cost, does not continue de-

<sup>2</sup> Gwinville, Mississippi, to Elmore, Alabama.

## ACCOUNTING FOR GAS LINE EXPANSION PROJECT

livering gas at decreasing pressure. The reason, of course, is that the best operating pressure ratio is between 1.3 and 1.8; the compressors on this line are not designed to pick up the gas at very low pressures.

In this study, the cost of the loop line was added to the original investment: The total investment per million cubic feet per day increases rapidly until the volume is increased from 155 Mcf per day to 220 Mcf per day, at which point it starts to decrease. It appears that the investment would, with sufficient volume, decrease further, but it reaches its maximum volume at 260 Mcf per day: It would at this point be necessary to add a compressor station.

**T**HE next part of the study includes the investment in a single line with a mid-point station. The investment per Mcf a day would increase at Point A if the compressor station were added; but the increase in volume would cause the investment curve to decrease to Point B, where the total volume would be 210 Mcf per day. Here the investment would be approximately \$56,000 per Mcf, the lowest cost encountered for this volume.

The problem of compression found at Point A, however, again comes up. As a result, a looping program would have to start at Point B in order to increase the capacity of the line to 280 Mcf per day. The total investment per Mcf per day is less than that of other alternatives. The cost of two stations trisecting the line is somewhat in excess of the cost of a single station on a looped line until capacities in excess of 227 Mcf are reached, at which time the plan for the two-station

single line becomes the most economical.

The operating expenses of each of the three proposals react similarly to investment: With added investment the annual expense per million cubic feet of gas increases, and the operating expense decreases. The annual expense per million cubic feet is only slightly different for the two methods, being less than 50 cents a million cubic feet per year.

### The Market Surveys: Prerequisite To Expansion

**O**RIGINALLY in a 1926 market survey field men went into the prospective communities to determine how many customers would be available for each classification and the volume of gas that each would probably use. In each town, for example, they canvassed possible domestic consumers and asked whether they would use natural gas if it were available. At the same time, they made estimates of the amount of gas it would take for heating, cooking, and hot water. Such a market survey included information regarding the average heating temperature and the type of dwelling; that is, whether it was wood or stone, the number of windows and outside doors, and the degree of insulation.

This type of survey is not generally used today. Instead, the number of meters already in a community and the amount of gas passing through them serve to establish a trend. Taken in conjunction with the population growth, the trend indicates the saturation point of a given area. Also available for such studies are the American Gas Association's statistics on heating and cooking in the different



## PUBLIC UTILITIES FORTNIGHTLY

areas of the country. Such data and methods have proved reliable in the past; but if for any reason they should be regarded as dubious, company officials can still send out market data information sheets, particularly to resale purchasers.

**I**N many cases communities have petitioned the Federal Power Commission for a transmission line or have come to the company so that both could petition the commission. In each case, information concerning the needed amount of gas has been furnished by existing or proposed distributing companies. If the Federal Power Commission issues a certificate of convenience for increasing facilities, it requires that the construction be carried out by a set time. In other cases, a company is forced to expand for reasons that point to the necessity in the future.

As previously stated, many months of planning precede an expansion program. Company officials may require as many as ten or twelve planned cost studies before determining which one will be used. Such factors as increased sales, reserves, and capacity of the mains are visualized much further ahead of operations than

is generally realized. Indeed, it is almost necessary to be in direct contact with an operating company to see how far-reaching the planning and statistical data may extend.

**G**ENERALLY an original line, as previously noted, has considerable more capacity than needed at the time it is placed in the ground. Responsible employees can determine with fair accuracy the volume of natural gas that will be required three years ahead. Even so, shortsightedness exists. After projecting its needs ahead for three years and putting a project through several cost studies, one company found that it would almost certainly increase sales. The company's project had been approved, but construction had not yet begun.

Nevertheless, no change was made in the diameter of the line to be constructed. As a result, the company lost the low cost of transportation that later would have been possible if a larger diameter line had been used. Nor did it have available the volume of gas it could dispose of, thereby losing also the entire income from the additional gas it could have sold.

### Proof of Feasibility

**I**N an expansion program, an item of particular significance is the cost of carrying debt. Usually, plans call for a pipe of larger diameter than is currently needed. If current income can support the larger debt, the company later realizes a larger amount of profit even though the volume of sales does not at the time justify the larger diameter. If, of course, the time anticipated for the large invest-



## ACCOUNTING FOR GAS LINE EXPANSION PROJECT

ment extends over a long period, the risk may be too great and thereby cause the company to reduce the size of the line and consequently the amount of debt required to support it.

After determining the volume of gas to be supplied in an area, officials seek the answers to two questions: On what basis should the volume of gas be delivered? What is the best method to move the increased volume, by increasing compressor horsepower or by laying additional lines?

THE company must answer these questions before the commission will grant the required certificate of convenience that in effect recognizes that the proposed project is economically feasible. But other factors also determine the feasibility of a project. To begin with, both the current volume and the probable increases must be established. Then the company must show in detail each source of its gas supply, giving the locations and the total proved recoverable reserves of each well. If the transmission company purchases its gas, such information must also be included, along with the total volume to be so received.

Ordinarily, the project must be supported by sufficient reserves to last approximately twenty years, because bonds sold in the past have ordinarily covered that length of time. Some companies have not been adding reserves sufficiently fast to keep the proven reserves up to twenty years; if they should wish to finance with outside capital, however, they would have to find additional reserves.

If it owns or leases reserves, the company must also furnish charts of new

sources of gas showing the contours of the gas sands as they exist in a particular field. Engineers drill wells at selected sites and test the sediments of different depths in order to fill in the contours of the field and indicate its size.

The company must present such other information as the peak-day sales requirement, annual volume of gas sales, and total requirements of the new system. It must also show the location of both the present and proposed facilities. Further, it must present information detailing the flow of gas in volume to the point of delivery, the cost of construction of the line, and whether the line is to take gas to final markets or run from new reserves to main points of distribution.

### The Size and Route of the Line

IN the early stages of planning, the costs of several transmission lines of different sizes are compared in relation to the volume of gas that they will carry. These cost comparisons are then projected for the several diameters at varying compression ratios. From these comparisons it is possible to determine not only the volume of gas that can be transported through each size, but also the cost of transporting it to its destination. It was found in one such study that the cost of carrying one million cubic feet of gas per day through different lines varied from slightly over nine cents per mile to approximately 13½ cents. As indicated earlier, cost of transmission decreases with increased diameter of line, increased volume, and increased load factor.

The price of gas to the transmission company, incidentally, has steadily risen. As a result, the transmission company has

## PUBLIC UTILITIES FORTNIGHTLY



been squeezed; the selling price of gas to the resale purchaser and domestic consumer is controlled by the Federal Power Commission, and industrial sales have to compete with both oil and coal. The problem would not arise, of course, if prices could be increased at the discretion of the company. Usually, however, the company can absorb increased cost only by exercising sufficient foresight to lay lines larger than those currently needed, thereby reducing later transmission expense when volume increases.

**T**HE route that a pipeline takes may involve high or low initial cost. In one instance, a company planned a line for the shortest route from the source of new reserves of gas to a main distribution point. The engineers, however, failed to take into consideration a body of water that turned out to be 60 feet deep.

When this cost problem was brought to light, several alternatives had to be considered. Would it cost less to go around the lake? Should the projected line join that of another company? Or should the line be built around the deep water and join another line of a company which was much farther away but

which was going to the same main distribution point?

### A Typical Construction Budget

**I**N order that the estimated cost of the proposed expansion will be known, the engineering department prepares a detailed estimate of costs which is usually referred to as a "construction budget." Detailed construction schedules reveal complete details of its component items.

This budget serves not only as a statement of the construction requirements, but also as an important tool in the executive control over capital expenditures. It is essentially, of course, an engineering report, and as such it assists the executives in their judgment as to the adequacy of the construction program. It also aids the financial officers by indicating the cash required for construction expenditures.

A small expansion project undertaken by the Southern Natural Gas Company is typical. The costs were assembled in such a fashion that the entire collection could be used for budget purposes. The line totaled 28.5 miles, but costs were collected by "sections." The estimated costs

## ACCOUNTING FOR GAS LINE EXPANSION PROJECT

for one such section—24 miles of 12 $\frac{3}{4}$ -inch pipe—appear as a unit at cost per mile. Costs are assembled in a like manner where construction is proposed for large expansion projects. River crossings, which are the most difficult and expensive of construction jobs, differ only in that they are estimated in cost per foot rather than per mile.

**I**N Southern Natural's budget, the land and land rights were separated from other factors. Particular attention, however, had to be directed to the size of the unit cost. Costs were accumulated by rods for right of way and were constant in each of the three sections for right of way, indicating that this is probably the usual price the company pays.

Costs for the pipeline (materials, installation, and land and land rights) were accounted for by the foot and by the unit. Cost of material usually runs about 53 per cent of total installation cost. This does not hold true for all lines, since frequently such special materials as concrete coating are not necessary.

In Southern Natural's budget, overhead expenses were charged as one per cent of the total direct cost, perhaps an arbitrary amount, but one regularly used by Southern Natural. These figures change, of course, when the actual costs are accumulated and the correct time of construction (to reveal interest costs) is known. The company's own engineers evidently constructed this addition, since no fees for engineers were entered in the estimated cost sheet. This cost was apparently entered under "overhead."

**T**HE estimated cost of the compression and measuring stations was detailed

just as the cost of the pipeline was. It included not only the cost of the compressors but also the cost of constructing office buildings and homes for personnel. The cost of materials amounted to 80 to 90 per cent of the total. The estimated costs of construction for the three sections of line and for the compressor units and two stations were summarized so that the cost of any part of all of the project was quickly available.

Later, when Southern's proposed project was completed and its actual cost known, the accounting department analyzed and compared actual and budgeted cost. If in any expansion the actual cost is exorbitant, executives of Southern Natural require explanation before they grant official approval to record additional cost. Other recent studies of budget control of construction not only cover much the same ground as did that of Southern Natural, but also point up the necessity of properly detailed classification.<sup>3</sup>

### Some Interesting Findings

**I**T has been found that from 70 to 90 per cent of the total investment of a transmission line is represented by cost of the pipe in the ground. Laying costs vary from \$5 to \$40 per foot, depending on cost of right of way and terrain. The material cost of the pipeline generally includes the pipe, mill inspection, freight, primer, enamel, wrapping, concrete coating (where the pipe is to be in water), freight on protective coating, gate valves, gate boxes, special construction material (such as canal signs), cathodic protec-

<sup>3</sup>"Public Utility Accounting," by J. Rhoads Foster and Bernard S. Rodey, Jr., pp. 147-149.

## PUBLIC UTILITIES FORTNIGHTLY

tion, pig traps, radiographic inspection, and overhead and interest during construction.

Compressor station costs are not included with those of each section of pipeline construction; rather, they appear in the plant account as part of the cost of the total property, being recorded in retirement units. The costs of compressor stations include the land and improvements on land, dwellings for employees, office buildings, compressor units and their foundations, piping, valves, and fittings. They further include housing for compressor, gas scrubbers complete, communications (FM radio and telephone), engineering, and, of course, overhead and interest during construction.

**A**FTER company officials have evaluated the various cost studies of a project and approved one, it becomes necessary to establish construction standards and prepare detailed drawings and specifications. This engineering work may be prepared by the company's own engineers or by an outside firm on a contract basis.

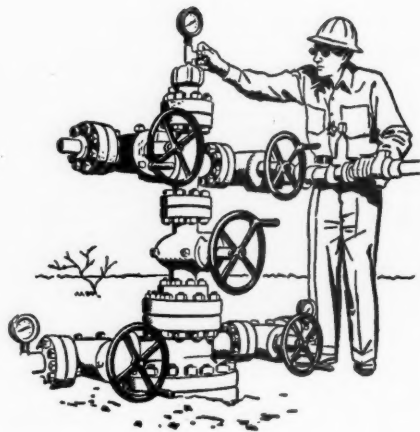
The proposed expansion has now progressed to a point where it can be presented to the Federal Power Commission for approval. It has yet to be financed.<sup>4</sup> The Federal Power Commission does not have control over the issuing of securities. This control falls under the jurisdiction of the Securities and Exchange Commission. But the Federal Power Commission must know how financing is going to affect the capital structure, or it may decide, as it did in one case, that the debt

structure is top-heavy. On these grounds, the Federal Power Commission withheld a certificate of convenience until the company changed its method of financing so that debt did not represent too large a part of total capital structure.

### Significance of Accounting in an Expansion Program

**C**OLLECTION of data for expansion of facilities may not appear to be an accounting function; however, the problems of the engineer in estimating cost for such an expansion are to a large extent cost accounting problems. Collecting cost data for a construction program varying from \$3 to \$100 million may certainly be classified as an accounting function, even though the data be assembled by engineers. The writer has, in fact, found that both the engineering department and the division of statistics assemble cost accounting data.

Accounting in the transmission industry at the time of expansion includes not only normal accounting operation, but



<sup>4</sup> "Financing the Expansion Program of the Natural Gas Transmission Industry," by Paul G. La Grone, *PUBLIC UTILITIES FORTNIGHTLY*, October 13, 1960, Vol. 66, No. 8, p. 535.



## ACCOUNTING FOR GAS LINE EXPANSION PROJECT

also plant accounting, where significant changes are taking place. Accounting is vitally important throughout the life of an expansion project, from the early studies until the project is determined to be economically feasible, and from the time a certificate of convenience is granted until it is recorded in the plant account records.

**I**N the past there has been some difficulty in getting both field and office personnel to classify correctly the property that is being added to the plant account. This problem arose originally because the Federal Power Commission specified only the following principal plant accounts for transmission companies:

- 351 Land and Land Rights
  - 351.1 Land
  - 351.2 Land Rights
- 352 Structures and Improvements
  - 352.1 Compressor Station Improvements
  - 352.2 M and R Stations
  - 352.3 Other Structures
- 353 Mains
- 354 Compressor Station Equipment
- 355 Other Transmission System Equipment

Along with these accounts, the Federal Power Commission published lengthy instructions for all transmission companies to define accounts for recording costs. Unfortunately, the instructions were vague and confusing.

**T**o overcome the difficulties of classification, some companies compiled a gas plant unit catalogue. Its purpose was to define specific properties, retirement

units, and operation and maintenance functions. It was also designed to facilitate uniform reporting, acting as a guide for field and office employees. Finally, it was to act as a guide to general employees in order to achieve uniformity in accounting for construction estimates, retirement estimates, construction authorization analyses, retirement authorization analyses, and plant ledgers.

The plant unit catalogue lists the retirement units in such a manner that mistakes in classification are reduced. Even when such errors do occur, if the amount classified incorrectly is not substantial, no great harm is done; the cost still appears in the total cost of the plant, which is the criterion for determining rates. By and large, however, the construction cost classifications as set out by the companies have created the uniformity which the Federal Power Commission sought to establish.

**I**N an attempt to avoid undue refinement in accounting for addition and retirement, most companies consider all property as consisting of retirement units. The adoption of a list of retirement units, however, should not be construed to entail a corresponding classification of utility plant in the accounts. The retirement unit is used to distinguish between items replaced through the plant accounts and those replaced through maintenance and processing plant accounts.

One large pipeline company, however, considers the cost of classifying plant into retirement units as unnecessary and costly. The officers reason that a great portion of the property will not, after all, be retired and therefore it is better to classify



retirement units as such at the time of retirement rather than at the time of construction.

#### Retirement Units Superior

**T**HIS writer believes that the use of retirement units offers clear advantages over other systems. The unit catalogue now makes uniform classification relatively easy, and any item is readily separable from the larger assembly of which it is a part. It is necessary, of course, to have authorizations for the installation and retirement of these units; but authorizations are not required for any other modifications of existing installations unless substantial change takes place in relation to the retirement unit.

In some companies investigated by the writer, cost classification, especially in connection with construction work orders, is designed so that proper cost can be accumulated for permanent record; that is, classifications of cost are made at the time that estimates for the project are being assembled. Such a system provides

an accumulation of detailed costs for various types of jobs in a form that may be readily interpreted for future cost comparison.

It also simplifies accounting and provides understandable data to the construction worker, because all phases of each special work order appear separately.

**T**HE cost of materials can be taken from information supplied by the manufacturer of the material. The cost of installation may be estimated from the cost of current construction of other work in the industry and from the company's past experience. On most work orders the contractor records costs as they are incurred.

If these are unavailable, the contractor simply records the physical equipment as installed, the invoices supplied to the company by the manufacturer being recorded later as the actual cost. Installation is usually contracted at a fixed fee. The old cost-plus method of contracting, with its frequently prohibitive costs, has prac-

## ACCOUNTING FOR GAS LINE EXPANSION PROJECT

tically vanished since it is no longer necessary to entice contractors to perform a job. Even though the contractor classifies the cost of labor and material, a company accountant keeps watch on bills and payrolls.

It may be justly said that the present method of accounting in the transmission companies is a result of trial and error. They have at times gone from one extreme to the other; however, they seem at last to have achieved a method which is understandable to nearly everyone. Even so, the cost classification manual is always kept easily accessible for employees.

### Authorizations

**"A**UTHORIZATIONS," as used here, are assignments from management to perform particular jobs which entail expenditure of funds. The term is the basis for a special account in which actual expenditures are collected and reported in convenient form designed to accomplish a particular function, that of relating dollars to physical property and maintaining that relationship. When company officials receive a request for authority to make an expenditure they compare it with the budget to determine whether the latter includes this particular work. Ordinarily, an authorization represents a construction unit that has been submitted to field inspection, analysis, and reporting, with respect both to construction details and costs.

**T**HE functional distinction between the authorization and the budget is significant. The proposed construction is, of course, tentatively approved at the

time the budget is prepared. Specific authorization, however, heads off interim circumstances that would tend to change the plans of management; that is, to make it undesirable to proceed at the time with the planned construction.

The authorization, then, is used as an instrument in the exercise of budgetary control; it is the final go-ahead signal for any project. Together, authorization and budget provide control of construction expenditures and the means for determining and recording individual additions.

When any construction is anticipated, responsible officials must know its purpose and justification. In the case of Southern Natural, the last approval on an authorization is reserved to the president of the company.

**T**HIS system of authorization is also a requirement of the Federal Power Commission:

Each natural gas company shall so keep its books of account, and all other books, records, and memoranda which support in any way the entries in such books of account, as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as will permit a ready identification, analysis, and verification of all of the facts relevant thereto.<sup>5</sup>

To diminish the amount of accounting that would be necessary for every small construction job, however, the commis-

<sup>5</sup> Federal Power Commission, Uniform System of Accounts, p. 6.

## PUBLIC UTILITIES FORTNIGHTLY

sion permits the use of "standing" or "annual" authorizations. Occasionally, this type of authorization is used by companies even on major construction projects in order to accumulate total interest and overhead. At a later time, the figures are prorated to the different projects.

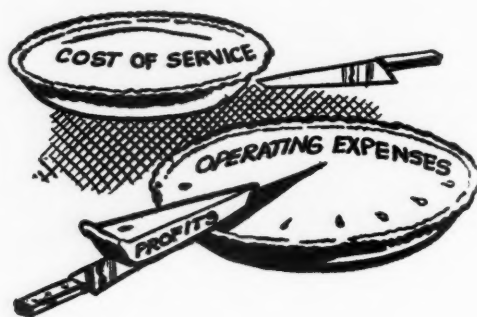
**A**UTHORIZATIONS aid company officials in comparing the construction budget and actual cost; that is, they furnish in convenient form the cost of specific construction work, including the details of cost components. Consequently, they reduce errors in making analysis of construction accounts.

As the costs are accumulated, they are transferred to a cost ledger under the retirement unit of which they are a part. This transfer is followed by another, this time to the plant ledger. In the plant ledger the total cost of a project becomes a part of the net plant account, which is, to a large extent, the basis for determining gas rates. Finally, all of the accumulated costs of a project—including those for direct and indirect labor, contract work, materials and supplies, transportation expense, and overhead and interest during construction—are made into a cost statement.

### Completion Reports

**A**FTER the completion of construction, engineers prepare a report. It includes any and all costs that have been necessary to carry out the project and a sketch of the project for examination, approval, or disapproval by the division head in charge. He may, for example, find items that should not be included. In any case, he must go to the project itself in order to conduct an on-the-site inventory of the units installed.

From the pipeline or compression division, as the case may be, the completion report passes to the accounting department, which checks the costs on the completion report against the cost sheet in the cost ledger. The accounting department makes the actual certification as to the monetary value of the property and conveys this property once a year to the plant ledger. The accounting department also determines the amount of property which a company can pledge in raising funds to finance a new addition, since property can be pledged only up to 60 per cent of its monetary value. The accountant's certification thus becomes a significant factor in the future soundness of the company.



## ACCOUNTING FOR GAS LINE EXPANSION PROJECT

### Construction Accounting

**P**ROPOSED expansion may be undertaken in three ways. A transmission company may hire engineers to design and construct a proposed project. Or, a company may carry out the work itself, especially when the operation is not major. Finally, it may use its own engineers for overall planning and inspection, but hire contractors for individual phases of the project.

When in undertaking a major construction program a company hires an engineering firm to complete the entire project, the company naturally must advance a working fund. The engineering firm may bill the company once a month for the appropriate portion of its fixed fee.

The company, incidentally, need not wait for the construction firm to begin work before ordering materials. It should order them at least tentatively by the time the project is presented to the Federal Power Commission.

During the period of construction, the engineering firm can make out reimbursement requests, which are charged to various authorizations as one amount. The authorizations remain open so that eventually the total cost for each retirement unit can be recorded. The construction firm should also keep a "construction ledger," in which are recorded all costs incident to the job as they actually arise. When the job is completed, outside ac-

countants can then audit the entire record of cost of the project. Recorded cost must, of course, agree with the legitimate cost.

**W**HEN the natural gas company is engineering its own construction and hiring contractors to perform particular parts of the project, the contractors usually render a bill once a month. Accountants then estimate the portion of the project which has been completed, based on engineering reports, and accordingly reimburse the contractors. It is general practice, however, to withhold 10 per cent of the amount as a guaranty that the contract will be fulfilled according to agreement. All reimbursement requests are audited by both the accounting department and the head of the department under which the construction is taking place.

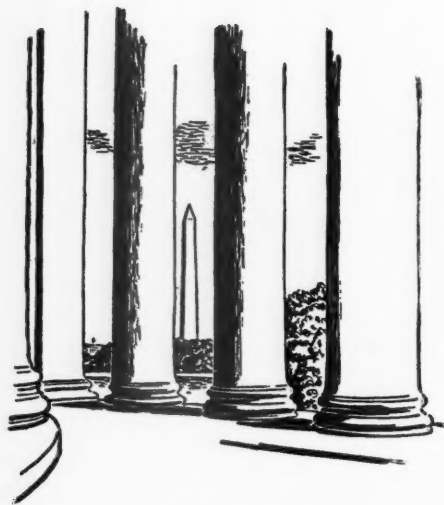
As a means of internal control, the company's own engineers also check to determine whether the costs are actual.

The heads of the compression and pipeline departments ordinarily requisition materials. Before doing so, however, they require pertinent information both from the accounting department and the purchasing department. Eventually, the material itself arrives at the company warehouse, where the usual problem of keeping inventory is involved. From there the materials are charged out to the construction project.

**Q** "IT is not consonant with the spirit of institutions of the American people that a demand should be made upon the public treasury for the solution of every difficulty."

—HERBERT HOOVER,  
Former President of the  
United States.





### *Are the ICC's Days Numbered?*

THEY used to joke about the late Franklin D. Roosevelt, saying that he solved an administrative difficulty by breaking it into pieces and then creating a new board to pick up the pieces. This somewhat facetious reference was made during the recurrent organization difficulties of World War II days which finally led to the War Production Board. Time after time there would be a clash of policies, programs, or personalities at various levels of administration. But instead of declaring any clear-cut decision for the winner and firing the loser, the White House answer seemed to be the creation of a new board to take over top-level authority.

Whether this strategy was successful may be a question of historical debate. The World War II civilian administration of the federal government was characterized by a succession of board after board, piled on top of a previously crumbling tier of authority. It did have the effect of putting down open revolt, since there were no clear-cut winners or losers in any dispute. But whether it led to any clear-

## Washington and the Utilities

cut, cohesive policy decisions was always disputed.

The recent 900-page report handed to the Senate Interstate Commerce Committee on overhauling the machinery of transportation regulation will probably be criticized in some quarters as repeating this formula of subordinating past mistakes while at the same time imbedding them in the future administrative machinery of the federal government.

THERE is no question about this forthright analysis of the shortcomings of our present regulatory setup for the transportation industries. The three-volume report, estimated to cost nearly a half-million dollars after two years' effort of a special Senate task force, does not pull any punches about past failures. Nor is it any respecter of old age, considering the outright recommendation for the abolition of the granddaddy of all federal regulatory commissions—the Interstate Commerce Commission, first created in 1887.

Few will argue with the conclusions of the Senate staff report concerning the

## WASHINGTON AND THE UTILITIES

chaos which now exists throughout the transportation industry of the United States from the standpoint of regulatory policy. There is, for example, the anomalous situation which exists in the subsidy of local air-line passenger service by the Civil Aeronautics Board, youngest of the major federal regulatory commissions, while at the same time the oldest of the commissions—the ICC—is required to approve the abandonment and discontinuance of nonsubsidized and unprofitable passenger service by railroad companies—often between the same cities served by the two different forms of transportation.

There is the overlapping and duplication of effort within Congress itself on transportation matters. A number of the so-called "splinter" duties are carried on contemporaneously and often independently by different Senate and House committees and subcommittees. The upshot of all this is the flat recommendation for the abolition—but in name only—of the ICC, the CAB, the Federal Maritime Board, plus some transportation responsibilities now scattered through various departments of the administrative branch—such as the Bureau of Public Roads. Yet, these same powers would be gathered together and taken over by a new Federal Transportation Commission, which would merge the quasi-judicial and regulatory functions of the separate agencies.

**I**N addition, the report advocates the establishment of a Department of Transportation which would assume the duties of the following groups: (1) the Federal Aviation Agency; (2) the Bureau of Public Roads; (3) the Maritime Administration; (4) the St. Lawrence Seaway Development Corporation; (5) the Panama Canal Company; and (6) the Defense Air Transportation Administration. The post of Under Secretary of Commerce for

Transportation would also be abolished and certain safety regulations now administered by the ICC would be transferred to the new agency.

Within the congressional branch the report also proposes the creation of a Joint Congressional Committee on Transportation to take over the "splinter" duties now exercised by a number of Senate and House groups. It suggests that a Federal Transportation Act of 1961 should be enacted which would remove the numerous "inconsistencies and ambiguities" which exist in the various separate laws which are now defining federal transportation regulation. Senator Magnuson (Democrat, Washington), chairman of the full committee, is expected to conduct hearings on the report in the near future.

### A New Octopus Commission?

**T**HIS Senate staff report is only a set of recommendations and does not have the endorsement of the committee. A real battle can be expected when the committee actually begins to consider some of the controversial suggestions contained in it. Of all the proposed reforms of government regulation, this is certainly the most detailed and far-reaching. Will this mean the end of the ICC? We had better wait and see. The strongly entrenched ICC, soon approaching its seventy-fifth anniversary, has been compared with the U. S. Marine Corps. Suggestions to do away with both occur from time to time, yet they both endure.

But will this consolidation of regulatory functions into a single octopus-type commission actually result in clearing away deadwood? Or will it simply imbed them more deeply into a new monolithic structure? If the new federal transportation agencies will continue to have the same powers, or maybe even more far-reaching

## PUBLIC UTILITIES FORTNIGHTLY

powers, than the ICC and the CAB and the Maritime Board, will any clear-cut national transportation policy emerge? One thing that we have learned from the history of transportation regulation is that the government does not know how to run railroads or airlines or ships better than their respective corporate managements. One of the main troubles today is widely said to be too much back-seat driving on the part of government.

**T**HIS report solves none of the basic questions, such as whether the airlines ever would have emerged as a strong independent industry if they were controlled under the wing of the same regulatory agency charged with the responsibility of operating the railroads. Our policy in the past has been to promote competition and encourage all new forms of transportation. Maybe it was a wrong policy. Maybe there has been too much competition provoked, too much subsidy, too much interference with managerial operations and managerial discretion. But the latest report certainly does not indicate that there will be any lessening of control and advice from Washington to the transportation industries. If anything, there will be more.

And we can just see in the future a top-heavy national federal transportation commission falling all over itself in a vast field occupied by three different forms of transportation industry, as well as the buses and trucks. Then, we can just see a future drive for reform through "reorganization" dividing the new octopus into industrial branches and divisions. And at that point we can just see some veteran Congressmen saying to themselves, "This is where I came in."

There is also to be considered the inescapable impact that any such drastic reorganization of transportation regulation

would have on other forms of commission regulation, at both the federal and state levels. It is interesting to note that while this Senate task force report proposed the amalgamation of three federal transportation commissions into one, another recent report in the House of Representatives faces the completely opposite direction and proposes splitting the Federal Power Commission into two, or at least into two segments. This was the recently filed report of the House Legislative Oversight Subcommittee, following its two years of extensive investigations and hearings of all the federal regulatory commissions.

**A**MONG other proposals it thought that the work of the Federal Power Commission ought to be broken down and departmentalized as between its duties with respect to gas companies as distinguished from its duties with respect to interstate electric company operations. The very name Federal Power Commission has become a paradox in view of the fact that by far most of the commission's time and attention these days are given over to the regulation of natural gas operations. On a work load basis it would be more sensible to call it the Federal Gas Commission.

### The Oversight Subcommittee Report

**A** MAJORITY of the now defunct Harris subcommittee called for a broad revision of laws governing the regulatory agencies. The Subcommittee on Legislative Oversight, headed by Representative Harris (Democrat, Arkansas), filed its report early in January suggesting changes in the FPC, ICC, FCC, and the Federal Aviation Agency. Among the recommendations was a suggestion for legislation which would prohibit industry officials from making off-the-record contacts with FPC.

## WASHINGTON AND THE UTILITIES

The special subcommittee also recommended new guide lines to help the FCC in its granting of license renewals of radio and television stations, federal control and licensing of radio and television networks, and new standards for persons granted carrier licenses by the Interstate Commerce Commission.

The subcommittee recommended the establishment of a permanent subcommittee to keep constant watch over the regulatory agencies. This would seem to duplicate, if not eliminate, the parallel proposal of Landis that a White House "Overseer" should constantly check and co-ordinate the work of the regulatory agencies. It appears unlikely that Congress would approve both an executive and legislative coordinating authority to function independently in the same field.

THE chances are that if a choice has to be made, the doubt will be resolved in favor of reserving such control to Congress, rather than delegating it to the executive branch. Both views could be compromised in the form of some joint setup, but that has not yet been suggested. There is nothing to prevent the President, of course, from setting up a secretary within his own Office of the White House to "oversee" regulatory agencies. He would not necessarily need new or special legislation for this, but the authority of such an "Overseer" in that case would be limited to an advisory capacity.

Republican members of the Harris subcommittee (dissenting from the majority), accused Thomas G. Corcoran, former New Deal adviser, of being "one of Washington's best-known influence peddlers." They said that the majority had gone out of its way to "whitewash" Corcoran. As to other charges, they said the subcommit-

tee's staff report was "unfair, unjudicial, and beneath the dignity of a congressional committee"; also, charges against the ICC and CAB were made without hearings.

### *New Appointments*

PRESIDENT-ELECT Kennedy on January 12th made a number of Interior Department appointments, in consultation with Secretary Stewart Udall: James K. Carr to be Under Secretary, replacing Elmer F. Bennett. Carr, forty-six, is chairman of the California Water Commission and a professional civil engineer. Kenneth Holum to be Assistant Secretary for water and power, replacing Fred G. Aandahl. Holum, forty-five, Madison, South Dakota, was a member of the South Dakota state legislature for two terms and is an official of a number of telephone and electric power co-operatives.

John A. Carver, Jr., will be Assistant Secretary for land resources. This is a new title and his post may combine the authority now vested in two assistant secretaries, Roger C. Ernst (public land management) and Royce A. Hardy (mineral resources). Carver, forty-two, a native of Idaho, has been administrative assistant to Senator Frank Church (Democrat, Idaho) since 1957. He is a lawyer by profession. Floyd E. Dominy, to be retained as Commissioner of the Bureau of Reclamation, is a 51-year-old Nebraskan. Dominy has been in the bureau since 1946 and was appointed Commissioner in 1959 to cap a government career that began in 1938. Frank Barry to be solicitor, succeeding George W. Abbott. Barry, forty-seven, Tucson, Arizona, is a lawyer, a Navy veteran, and former chairman of the Arizona Advisory Committee on Civil Rights.



### *AT&T Flat Rate Becomes Effective*

**T**HE Federal Communications Commission has found a way to permit wide area telephone service (WATS) to go into effect with the tariffs suggested by the American Telephone and Telegraph Company. The general plan of these tariffs was outlined in the last issue of the *FORTNIGHTLY*.

In the order, handed down on January 13th by the FCC, the commission, on its own motion, instituted an investigation into the lawfulness of regulations and charges proposed by AT&T for interstate flat rate long-distance telephone service but permitting the tariff schedules filed to become effective January 15th.

This action permits the program to go into effect but leaves for a later solution the economic impact of the new system on the independent telephone companies. This economic question led to a filing by the United States Independent Telephone Association and the General Telephone system of petitions asking that the WATS tariffs be suspended. The independents, under the leadership of the USITA and General Telephone, have asserted that the WATS service could work serious economic hardship unless the FCC provides more revenue protection on toll

## Telephone and Telegraph

divisions. The Bell system, however, has questioned the position of the USITA with the independent industry itself, asserting that as many as 2,000 out of 3,500 independent companies have indicated their willingness to go along with the WATS proposal.

**U**NDER the FCC order hearings will be held later and the examiner was ordered to certify the record of the commission for decision without preparing either an initial decision or a recommended decision. USITA and General Telephone, despite the commission's refusal to suspend the tariffs, are practically assured that their complaints will be examined at a later date.

Actually the independents do not object to the WATS system itself. The only real objection is based on the possible economic hardship that such a system might work on some of the independent companies. The conflicting opinions of AT&T and the independents would seem to be just a matter of looking at the same problem from two viewpoints and coming up with two varying answers. Neither group, however, is basically against a system which will provide improved service for the public.

The commission's decision in the mat-



## TELEPHONE AND TELEGRAPH

ter was 4 to 3. Chairman Ford concurred in part and dissented in part. He issued a statement in which Commissioners Hyde and Bartley joined. Chairman Ford's dissent should be of particular interest to the independents. He stated:

I concur in the action taken by the commission except in so far as the order adopted herein fails to provide that pending hearing and decision upon the tariffs under investigation, the operation of such tariffs be suspended for the statutory period of three months from the date of January 15, 1961, the date upon which those tariffs are scheduled to become effective, pursuant to the statutory procedures set forth in § 204 of the Communications Act of 1934, as amended.

The proposed new tariff represents a substantial change in the offering and pricing of interstate long-distance message telephone service. More important, however, the proposed tariff schedules present for ultimate determination a number of novel but basic questions going to the lawfulness of the tariff under §§ 201(b) and 202(a) of the act. Section 201(b) requires that all charges, classifications, regulations, and practices for and in connection with interstate communication services shall be just and reasonable. Section 202(c) prohibits unjust and unreasonable discriminations and undue and unreasonable preferences.

Recognizing the existence of these substantial questions of lawfulness, the majority of the commission has voted to investigate the proposed tariff. These same questions, in my opinion, warrant, if not require, the commission to take whatever measures have been made available by the Communications Act to prevent the new tariff from becom-

ing effective until it has had an opportunity to resolve such questions by the investigation which has been provided for.

The commission action in this matter would seem to clear the way for the WATS system without denying the independents their opportunity to set their case before the FCC.

### *FCC Chairman Named*

SHORTLY before his inauguration, President-elect Kennedy named Newton N. Minow, Chicago attorney, as FCC chairman. The 34-year-old law partner of Adlai E. Stevenson will replace Chairman Ford, who will step down from the chairmanship but still remain on the commission. Ford's term does not expire until June 30, 1964. Minow has no extensive background in the regulatory field but has represented a producer of educational TV films. He also served as Stevenson's administrative assistant when the latter was governor of Illinois.

The new appointment gives the Democrats a 4-to-3 majority on the commission, and automatically replaces a Republican recess appointee, Charles H. King. Minow has indicated that the federal agencies "have got to move faster," which may indicate that he anticipates streamlining FCC procedures. The President-elect is also expected to make early appointments of new chairmen to the CAB, FPC, FTC, ICC, SEC, and the National Labor Relations Board. These appointments are not subject to Senate approval, unless they involve new commissioners as in the case of Minow.

There are a number of other vacancies, of course, in addition to chairmen awaiting action by the new President. In the light of the Landis report, which blamed

## PUBLIC UTILITIES FORTNIGHTLY

a good many of the FCC ills on the "quality of its top personnel," there has been some speculation that the Kennedy appointments will receive careful scrutiny by the Senate when the matter of approving them is taken up.

### *AT&T Plans Pacific Cable*

THE American Telephone and Telegraph Company has announced plans to lay a new telephone cable connecting San Francisco, Hawaii, Midway, and Tokyo. The actual part of the cable that will have to be laid will be between Hawaii and Tokyo. Cable facilities between the mainland and Hawaii already are in use.

The project is expected to cost some \$80 million and would be completed in 1964. At the present time negotiations between AT&T and Japan's International Telephone & Telegraph Corporation are under way.

At the moment only eight circuits exist between the United States and Japan. Once the new cable is in use there will be 120 circuits available. When this new cable facility is completed a good bit of the world will be in a position to communicate to any other spot on earth by way of underseas cables rather than through radiotelephone circuits.

### *FCC Authorizes Moon Bounce*

THE Nutley, New Jersey, laboratories of the International Telephone & Telegraph Corporation have been authorized by the Federal Communications Commission to bounce signals off the moon as part of their space program. The FCC has allocated certain frequencies for experimental purposes for one year.

In authorizing the experiments the FCC stressed that "no determination has been made either nationally or internationally as to what portion or portions of the radio spectrum ultimately may become available for use by operational space communications systems." This points out the fact that the day will soon arrive when some sort of international regulation and allocation scheme will have to be worked out to cover the rapidly expanding space communications projects which various governments will initiate in the future.

### *Bell Announces New Telpak Service*

THE American Telephone and Telegraph Company on January 16th proposed a new service which would create broad "electronic highways" between specified points, over which almost all types of communications could be transmitted. Called Telpak, the new Bell system interstate service is tailored to the needs of businesses and government agencies needing a large volume of point-to-point communication.

Telpak provides communications channels of various widths which can handle telephone calls, teletypewriter messages, control, signaling, facsimile, data, and other transmission.

In a filing with the Federal Communications Commission, AT&T said that four sizes of Telpak channels would be offered, ranging in capacity from the equivalent of 12 voice grade circuits to the equivalent of 240 voice grade circuits. Voice grade circuits are those over which telephone conversations are carried. Facilities at the ends of a channel would be provided so customers can use them for the specific types of communications.

# Financial News and Comment

By OWEN ELY



## *Fortune Forecasts a \$40 Billion Economic Upturn In the Next Eighteen Months*

**F**ORTUNE, in its January issue, makes a highly optimistic forecast for 1961-62. In the next eighteen months, its editors conclude after a study of the statistical evidence, the gross national product will advance from \$505 billion to \$545 billion and produce a sizable boom. This assumes that the 1960 "readjustment," which was largely confined to reduction of inventories, is now about completed. Sales to ultimate consumers have been advancing steadily, and liquidation of inventories at the \$4 billion rate in the December quarter should not continue much longer.

The Federal Reserve Index was 105 in December and may not show much change either way over the next two or three months, but after that *Fortune* expects it to gain about one per cent a month, reaching a level around 120 by the middle of 1962.

The federal government began increasing its expenditures about a year ago and all government units (including state and local) are probably now spending about \$10 billion more per annum than a year ago. This is expected to increase further as a result of the various expansion plans of the new administration, including increased defense outlays.

The banking situation has been greatly improved, with bank reserves and the supply of money increasing. Increased plans for public construction are indicated by a significant rise in the sale of bond issues for public works. While construction plans by business itself have been declining, this trend is expected to reverse gradually as new orders and contracts improve, and spending for expansion should increase in the second half of 1961.

In making their forecast, the *Fortune* editors point out that the year-to-year growth in GNP has continued. Since capital outlays by business remain moderate, it should be using its plant and equipment

### DEPARTMENT INDEX

	Page
<i>Fortune</i> Forecasts a \$40 Billion Economic Upturn in the Next Eighteen Months .....	181
Why So Little Equity Financing in 1960? .....	182
Table—Current Yield Yardsticks ....	182
Chart—Trend of Utility Stock Groups in 1942-60 .....	183
Table—Electric and Gas Utility Security Offerings in December .....	184
Table—Offerings of Securities by Electric, Gas, and Telephone Utility Companies in 1959-60 .....	185
Electricity—the Glamour Industry ...	186
Tables—Financial Data on Gas, Telephone, Water, and Transit Utilities	187, 188, 189

## PUBLIC UTILITIES FORTNIGHTLY

more fully in 1962 than at any time in seven years. This in turn should lead to an increase in plans for new construction, which will keep the economy expanding for at least another year—perhaps even bringing a “superboom in investment.”

Unemployment should begin to decline during the spring months of 1961 and if productivity does not improve, the economy could reach practically full employment some time next year; if productivity does improve there would be room for further growth. Home building starts already have turned the corner and should show a modest gain by next summer and approach 1.4 million by 1962. The volume of consumer spending has increased a little over two per cent per annum in the past eighteen months but the rate of increase is expected to rise to 4 per cent. All in all, the evidence presented by *Fortune* seems convincing, and the recent action of the stock market is also encouraging.

### *Why So Little Equity Financing in 1960?*

THE table on page 185, prepared by Ebasco Services Incorporated, presents details of utility financing for

1959-60. The total securities sold were \$3,675 million, slightly lower than 1959's \$3,754 million. A percentage breakdown by industry groups for 1958-60 is as follows:

	1960	1959	1958
Electric Companies .....	49%	52%	48%
Gas Companies .....	24	29	27
Telephone Companies .....	27	19	25
Total .....	100%	100%	100%

As the table indicates, almost all financing was to raise new money for construction or to repay bank loans—the amounts for refunding and divestment, which were substantial in some earlier years, were negligible in 1960. The breakdown by kinds of security were as follows:

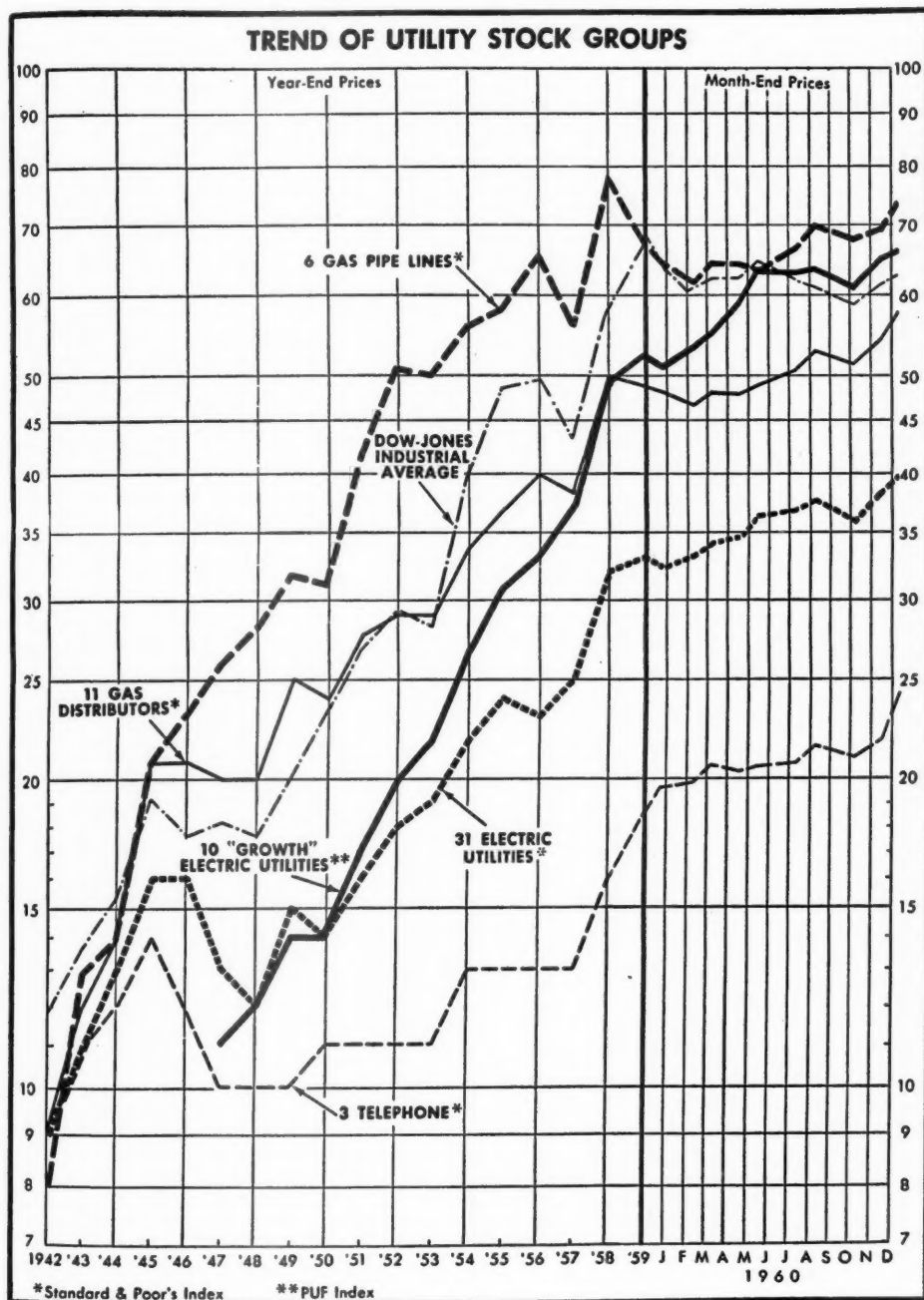
	1960	1959	1958
Long-term Debt .....	82%	70%	80%
Preferred Stock .....	8	10	9
Common Stock .....	10	20	11
Total .....	100%	100%	100%

THE fact that only 10 per cent of total financing represented the sale of common stock indicates that the equity ratio for the average utility probably declined somewhat in 1960 despite the contribution to equity made by retained earnings, deferred taxes, etc. Since figures are not compiled showing the

### CURRENT YIELD YARDSTICKS (Standard & Poor's Indexes)

	Jan. 11, 1961	1960-61 Range		1959 Range	
		High	Low	High	Low
Utility Bonds—A1+ .....	4.49%	4.72%	4.32%	4.71%	4.23%
—A1 .....	4.45	4.73	4.36	4.76	4.24
—A .....	4.63	4.86	4.49	4.94	4.44
—B1+ .....	4.68	5.16	4.56	5.19	4.71
Preferred Stocks* .....	4.73	4.88	4.57	4.90	4.45
Utility Common Stocks .....	3.59	4.11	3.59	4.13	3.71
Yield Spread: A1+ Bonds Exceeded Common Stocks .....	0.90	0.61	0.73	0.58	0.52

\*Twelve industrial and two utility issues (high-grade).





## PUBLIC UTILITIES FORTNIGHTLY

average equity ratio for all classes of utilities on a combined basis, it is hard to appraise the exact effect of the low equity financing. It will be noted that while the ratio was only 11 per cent in 1958, it jumped to 20 per cent in 1959 so as to average 15.5 per cent for the two years, and it is possible that 1961 will make up for the low amount of financing in 1960; the offering of American Telephone and Telegraph stock in February—which might approach \$1 billion in magnitude—will, of course, swell the year's total considerably.

So far as the electric utilities are concerned, equity financing was only 7 per cent of their total financing last year compared with 28 per cent in the previous year so that the average for the two years would approximate 17.5 per cent. The contribution to equity made by retained earnings and deferred taxes was probably in the neighborhood of \$550 million in 1960 compared with \$126 million equity financing, so that the effects

of the small equity financing were not as bad as might be assumed. Up-to-date figures are not available but the equity ratio for all investor-owned electric utilities has averaged around 37 per cent for some years on a weighted basis.

**W**HY was utility financing so low last year, while the market behavior of utility stocks was so good? The answer may be that utilities were irregular early last year when financing plans were being formulated, and of course the performance of the stock market as a whole was rather discouraging until late in 1960. On the other hand, the atmosphere of the bond market improved. With the present extremely favorable action of utility stocks, it seems probable that plans for more equity financing in 1961 are being formulated.

It is also interesting to note that subscription financing last year was a much smaller proportion of the total than in 1959, although private sales held up



### ELECTRIC AND GAS UTILITY SECURITY OFFERINGS IN DECEMBER

<i>Date</i>	<i>Amount (Mill.)</i>	<i>Description</i>	<i>Price To Public</i>	<i>Under- writing Spread</i>	<i>Offer- ing Yield</i>	<i>Aver. Yield For Securities Of Similar Quality</i>	<i>Moody Rating</i>	<i>Success Of Offer- ing</i>
<i>Bonds and Debentures</i>								
12/7	\$35	Northern States Power 1st (s.f.) 5s, 1990 .....	100.00	.72C	5.00%	4.50%	Aa	a
12/8	40	Potomac Elec. Power 1st 5s, 1995 ..	100.83	.68C	4.95	4.50	Aa	a
12/8	9	Atlanta Gas Light 1st (s.f.) 5½, 1985 .....	101.50	.97C	5.02	4.66	A	b
12/14	35	Consumers Power 1st (s.f.) 4½, 1990* .....	100.00	.65C	4.63	4.37	Aaa	c
<i>Preferred Stocks</i>								
12/14	25	Public Serv. E. & G. 5.28% Pfd.* ..	102.00	1.85N	5.18			a
<i>Common Stocks Offered to Public</i>								
12/7	4	Iowa Power & Lt. ....	37.50	1.05C	4.27		6.4%	a

\* Nonrefundable for a period of years. a—It is reported that the issue was well received. b—It is reported that the issue was fairly well received. c—It is reported that the issue sold somewhat slowly. N—Negotiated. C—Competitive.

Source, Irving Trust Company

FEBRUARY 2, 1961

# FINANCIAL NEWS AND COMMENT

## OFFERINGS OF SECURITIES BY PUBLIC UTILITY COMPANIES (000 omitted)

	January 1 to December 31, 1960					January 1 to December 31, 1959				
	Total	Electric Companies	Gas Companies	Telephone Companies	Other Companies	Total	Electric Companies	Gas Companies	Telephone Companies	Other Companies
Long-Term Debt										
Offered Publicly	\$2,664,416	\$1,311,000	\$506,196	\$847,000	\$220	\$2,046,080	\$1,093,100	\$442,980	\$510,000	\$8,000
Offered through Subscription	42,082	38,102	3,830	150	-	108,571	100,571	27,815	-	-
Offered Privately	310,570	121,000	138,570	26,200	4,800	473,200	59,825	324,650	30,150	18,575
Total	\$3,017,068	\$1,470,102	\$668,596	\$873,350	\$5,020	\$2,627,851	\$1,293,496	\$767,630	\$540,150	\$26,575
Preferred Stock										
Offered Publicly	\$121,400	\$67,500	\$51,300	\$2,500	\$100	\$268,310	\$81,142	\$157,168	\$30,000	-
Offered through Subscription	3,917	3,917	-	-	-	30,815	27,815	3,000	-	-
Offered Privately	146,000	129,500	6,500	10,000	-	59,095	17,495	29,500	9,100	\$1,000
Total	\$271,317	\$200,917	\$57,800	\$12,500	\$100	\$358,220	\$98,637	\$214,483	\$42,100	\$3,000
Common Stock										
Offered Publicly	\$258,094	\$81,407	\$107,059	\$69,628	-	\$313,442	\$244,035	\$1,348	\$66,018	\$2,041
Offered through Subscription	128,197	48,589	41,527	31,326	\$2,555	454,348	299,081	109,463	44,685	1,119
Total	\$386,291	\$129,996	\$150,586	\$103,154	\$2,555	\$767,790	\$543,116	\$110,811	\$110,703	\$3,160
Total Financing	\$3,674,676	\$1,801,015	\$876,982	\$989,004	\$7,675	\$3,753,861	\$1,935,249	\$1,092,924	\$692,953	\$32,735
SEGREGATION OF FINANCING - BY PURPOSE										
Total Refunding	\$8,924	\$3,155	\$5,715	-	\$4	\$35,225	\$7,172	\$28,123	-	-
Total Divestment	\$6,671	\$1,203	\$5,468	-	-	\$1,460	-	148	-	\$1,342
New Money										
Long-Term Debt	\$3,011,899	\$1,470,102	\$662,881	\$873,350	\$4,966	\$2,592,556	\$1,286,324	\$739,507	\$540,150	\$26,575
Preferred Stock	271,317	200,917	57,800	12,500	100	358,220	98,637	214,483	42,100	3,000
Common Stock	376,465	125,638	145,118	103,154	2,555	766,300	543,116	110,663	110,703	1,818
Total New Money	\$3,659,681	\$1,796,657	\$865,799	\$989,004	\$7,621	\$3,711,076	\$1,928,077	\$1,064,653	\$692,953	\$31,393
Total Financing	\$3,674,676	\$1,801,015	\$876,982	\$989,004	\$7,675	\$3,753,861	\$1,935,249	\$1,092,924	\$692,953	\$32,735
SEGREGATION OF FINANCING - BY TYPE										
Competitive Bidding	\$2,516,484	\$1,354,556	\$332,928	\$829,000	-	\$1,924,280	\$1,285,880	\$29,000	\$510,000	-
Negotiated Sales	\$527,326	\$105,351	\$331,627	\$90,128	\$220	\$703,552	\$132,997	\$472,406	\$96,018	\$2,041
Subscription										
Competitive	\$8,102	\$8,102	\$	\$	\$	\$165,057	\$97,964	\$	\$7,093	\$
Negotiated	27,165	27,042	\$46,604	\$	\$	319,981	263,700	314,000	31,000	\$16,068
No Underwriting	59,027	25,464	753	32,740	100	108,696	37,698	49,181	11,617	\$
Total Subscription	\$174,296	\$90,608	\$47,337	\$33,676	\$2,655	\$593,734	\$399,652	\$137,278	\$47,685	\$9,119
Private Sales	\$456,570	\$250,500	\$165,070	\$36,200	\$4,800	\$532,295	\$117,320	\$354,150	\$39,250	\$21,575
Total Financing	\$3,674,676	\$1,801,015	\$876,982	\$989,004	\$7,675	\$3,753,861	\$1,935,249	\$1,092,924	\$692,953	\$32,735

### SEGREGATION OF FINANCING - BY PURPOSE

Total Refunding	\$8,924	\$3,155	\$5,715	-	\$54	\$35,295	\$7,172	\$28,123	-	-
Total Divestment	\$6,671	\$1,203	\$5,468	-	-	\$1,490	-	\$48	-	\$1,342
New Money	\$3,011,299	\$1,470,102	\$662,881	\$873,350	\$4,966	\$2,592,576	\$1,286,324	\$739,507	\$540,150	\$26,575
Long-Term Debt	271,317	200,917	57,800	12,500	100	358,220	98,637	214,483	42,100	3,000
Preferred Stock	376,465	125,638	145,118	103,154	2,555	766,300	543,116	110,663	110,703	1,818
Common Stock	\$3,659,081	\$1,795,657	\$855,799	\$989,004	\$7,621	\$3,717,076	\$1,928,077	\$1,064,651	\$692,953	\$11,393
Total New Money	\$3,674,676	\$1,801,015	\$876,982	\$989,004	\$7,675	\$3,753,861	\$1,935,249	\$1,092,924	\$692,953	\$32,735

### SEGREGATION OF FINANCING - BY TYPE

Competitive Bidding	\$2,536,184	\$1,354,556	\$332,928	\$929,000	-	\$1,924,280	\$1,285,280	\$129,000	\$510,000	-
Negotiated Sales	\$271,326	\$105,351	\$311,627	\$90,128	\$220	\$703,582	\$132,997	\$472,496	\$96,018	\$2,041
Subscription	\$38,102	\$38,102	\$46,604	\$66	\$2,555	\$165,057	\$97,964	\$67,093	\$16,068	\$9,119
Competitive	77,167	27,012	753	32,710	100	319,981	263,790	31,004	31,617	-
Negotiated	59,027	25,464	753	32,710	100	108,696	37,868	39,181	31,617	-
No Underwriting	\$174,296	\$90,608	\$47,357	\$33,676	\$2,655	\$591,734	\$399,652	\$137,278	\$47,685	\$9,119
Total Subscription	\$456,570	\$250,500	\$165,070	\$66,200	\$4,800	\$532,295	\$117,320	\$354,150	\$39,250	\$21,575
Private Sales	\$3,674,676	\$1,801,015	\$876,982	\$989,004	\$7,675	\$3,753,861	\$1,935,249	\$1,092,924	\$692,953	\$32,735

\* Includes \$100,000 of preferred stock offered publicly.

Ebasco Services Incorporated, Business Management & Financial Department, January 6, 1961.

## PUBLIC UTILITIES FORTNIGHTLY

fairly well. Competitive bidding gained sharply at the expense of negotiated sales.

### *Electricity—the Glamour Industry*

IT is an intriguing picture of the year 2000 which the Edison Electric Institute presents in its brochure "Power and Progress." The consumer will truly be "king" in the days to come. Even the push button may be outmoded—electric devices or robots will carry out his wishes almost before he knows what he wants. Temperature and humidity will be controlled, and illumination can be adjusted to every mood or purpose, and to compensate for any degree of light from without. TV screens will be set into the walls of each room for entertainment, and will also provide pictures of persons using the phone.

Vacuum cleaners will be automatic—giving the place a clean up whenever needed; and the kitchen will also perform "on its own"—setting up a new menu and producing meals without guidance. Automobiles will follow electronic controls on high-speed throughways—the chauffeur can read a newspaper. Many factories will be fully automatic, run by electronic computers with taped instructions. As to national defense, it is even suggested that the entire United States could be covered with an electronic canopy which would prevent missiles and bombs from reaching their objectives.

Abundant and cheap electricity will continue to be the key factor in progress. By the year 2000 our national electric establishment (doubling every decade) may be about sixteen times as great as it is today. A good part of the generating system will be based on atomic energy, and fusion may also be harnessed

for commercial use by that time. Turbines and generators will probably have been largely superseded by new methods of converting heat (produced by chemical reaction or in atomic reactors and fusion devices) directly into electricity.

Today nearly two million men and women are employed in the electric industry itself, and in the manufacturing of electric equipment and appliances; and millions more are employed in electronics, radio, TV, motion pictures, and other industries based on electricity; chemicals and light metals are also largely dependent on its use.

The U. S. now has eight times as much electric power capacity (985 watts per person) as the average for the rest of the world (120 watts). While the U. S. has only one-sixteenth of the world's population, it has more than one-third of the power capacity—175 million kilowatts *versus* an estimated world total of 500 million kilowatts. Our capacity compares with that of other leading countries as follows (in millions of kilowatts): Russia 59, Great Britain 34, West Germany 25, Canada 23, Japan 22. Since the end of World War II, U. S. capacity has nearly tripled, as follows:

	<i>Millions of Kilowatts</i>	
	<i>Jan. 1, 1946</i>	<i>Jan. 1, 1960</i>
Electric Power Company Plants	40	119
Government-owned and Co-ops	10	38
Industrial, Mine, and Railway Plants .....	13	17
Total .....	63	174

ABOUT 79 per cent of our power needs in the United States are now generated in steam plants, 20 per cent in hydro plants, and 1 per cent by internal combustion engines. The efficiency of hydro plants does not change much, but steam plants are now 13 times as efficient as they were in Edison's day—and his

# FINANCIAL NEWS AND COMMENT

were twice as efficient as their predecessors. One pound of coal can now produce as much electricity as a ton of water falling about one-third of a mile.

Atomic power is being gradually developed and in several years it may produce one per cent of total output; use of the new type fuel (isotopes of uranium and other heavy metals) will increase world fuel reserves some twenty times. The fusion of hydrogen, if and when it is developed commercially, will add almost an unlimited reservoir of fuel—*isotopes of hydrogen obtainable from the ocean.*

Some 132 electric power companies—perhaps 98 per cent of the industry in

terms of revenues—are participating in one or more of the 26 atomic power projects, of which five are in operation, nine under construction or contract, and the remainder in the experimental or planning category. A small number of utilities, located in the South, are co-operating with General Dynamics to study the possibilities of fusion. Ten others are working with Avco Corporation on the development of magnetohydrodynamics (MHD). In this process, instead of passing a wire through a magnetic field to produce electricity as with conventional generators, a stream of ionized gas is passed through the magnetic field.



## FINANCIAL DATA ON GAS UTILITY STOCKS

Approx. Rev. (Mill.)		1/10/61 Price About	Divi- dend Rate	Approx. Yield	Recent Share Earnings	Per Cent Increase In Share Earnings Recent 5-yr. Avg.	Price- Earnings Ratio	Div. Pay- out	Approx. Common Stock Equity		
Pipeline and Integrated Companies											
\$ 6	O	Ala.-Tenn. Nat. Gas ....	23	\$1.20	5.2%	\$1.55Se	5%	8%	14.8	77%	43%
227	S	American Nat. Gas ....	84	3.00	3.6	4.90Se	12	7	17.1	61	40
111	A	Ark.-Louisiana Gas ....	36	1.00	2.8	1.65Se	—	50	21.8	64	40
62	O	Colo. Interstate Gas ....	41	1.25r	3.0	1.87Se	NC	11	21.9	67	26
465	S	Columbia Gas System ...	24	1.10	4.6	1.50Se	15	6	16.0	73	44
21	O	Commonwealth N. G. ...	25	1.10	4.4	1.76Je	12	6	14.2	63	52
324	S	Consol. Nat. Gas ....	53	2.30	4.3	3.45Se	12	3	15.4	67	58
452	S	El Paso Nat. Gas ....	28	1.30g	4.6	1.38De'59	3	11	20.3	94	21
55	S	Equitable Gas .....	39	1.85	4.7	2.38Se	D9	11	16.4	78	46
47	O	Houston N. G. ....	31	.80	2.6	1.73Oc	43	20	17.9	46	21
24	O	Kansas Nebr. Nat. Gas .	25	1.19	4.8	1.86Se	14	6	13.4	64	36
125	S	Lone Star Gas .....	45	2.00	4.4	2.50Se	7	6	18.0	80	47
88	S	Miss. River Fuel .....	35	1.60	4.6	2.19De'59	12	5	16.0	73	50
31	S	Montana Dakota Util. ..	35	1.20	3.4	1.97Se	15	5	17.8	61	30
29	S	Mountain Fuel Supply ..	30	1.40	4.7	1.84Se	8	4	16.3	76	53
94	S	Nat. Fuel Gas ....	25	1.20	4.8	1.79Se	D6	6	14.0	67	52
159	S	Northern Nat. Gas ....	31	1.40	4.5	2.21Se	20	7	14.0	63	32
43	S	Oklahoma Nat. Gas ....	33	1.40	4.2	2.06N	6	5	16.0	68	34
137	S	Panhandle East. P. L. ..	52	1.80	3.5	3.30De'59	18	9	15.8	55	38
226	S	Peoples G. L. & Coke ..	67	2.60	3.9	4.38Se	17	8	15.3	59	43
33	O	Pioneer Natural Gas ....	25	.88	3.5	1.40De'59	27	9	17.9	63	41
122	S	Southern Nat. Gas ....	40	2.00	5.0	2.13Se	15	—	18.8	94	36
46	O	Southern Union Gas ....	28	1.12	4.0	1.50De'59	7	3	18.7	75	29
463	S	Tenn. Gas Trans. ....	25	1.10	4.4	1.36N	26	17	18.4	81	26
296	O	Texas East. Trans. ....	32	1.40	4.4	2.52Se	28	4	12.7	56	21
116	S	Texas Gas Trans. ....	37	1.50	4.1	2.58Se	14	4	14.3	58	21
147	O	Transcont. Gas P. L. ...	23	1.00u	4.3	1.25Se	7	10	18.4	80	20
354	S	United Gas Corp. ....	34	1.50	4.4	2.09Se	D12	2	16.3	72	40
Averages .....				4.2%		12%	9%	16.7	69%		
Retail Distributors											
40	S	Alabama Gas .....	33	\$1.60	4.8%	\$2.45Se	31%	—	13.5	65%	33%
68	O	Atlanta Gas Light ....	42	1.80	4.3	3.18N	56	9%	13.2	57	44

# PUBLIC UTILITIES FORTNIGHTLY

Approx. Rev. (Mill.)	(Continued)	1/10/61 Price About	Divi- dend Rate	Approx. Yield	Recent Share Earns.	Per Cent Increase In Share Earn. Recent 5-yr. Avg.	Price- Earn. Ratio	Div. Pay- out	Approx. Common Stock Equity	
3	O Berkshire Gas .....	19	1.00	5.3	1.21Au	D7	5	15.7	83	42
7	A Bridgeport Gas .....	31	1.68	5.4	2.11Se	D5	5	14.7	80	48
6	O Brockton-Taunton Gas ..	20	1.00	5.0	1.22De'59	D6	14	16.4	82	41
89	S Brooklyn Union Gas ...	31	1.20	3.9	*1.76Se	* 8	* 6	*17.6	68	42
45	O Central Elec. & Gas ....	29	1.20c	4.1	1.95Se	14	9	14.9	62	18
14	O Cent. Indiana Gas .....	16	.80	5.0	.82N	5	—	20.0	98	58
7	O Chattanooga Gas .....	5	.30	6.0	.44Au	39	5	11.4	68	54
16	O Elizabethtown Gas .....	46	1.80	3.9	3.49Oc	30	11	13.2	52	79
77	O Gas Service .....	38	1.72	4.5	2.69N	16	8	14.1	64	35
9	O Hartford Gas .....	52	2.00	3.8	3.42Se	60	—	15.2	58	51
3	O Haverhill Gas .....	28	1.60	5.7	1.81Oc	D13	12	15.5	88	53
21	O Indiana Gas & Water ..	25	1.00	4.0	1.61N	10	5	15.5	62	46
62	S Laclede Gas .....	26	1.05	4.0	1.55Se	40	5	16.8	68	38
9	A Louisiana Gas Service ..	18	—x	—	1.22Au	NC	—	14.7	—	48
7	O Mich. Gas Utils. ....	16	.60	3.8	1.14Se	54	5	14.0	53	37
53	O Minneapolis Gas .....	34	1.60	4.7	2.15Se	10	—	15.8	74	43
18	O Miss. Valley Gas .....	24	1.20	5.0	1.93Se	D3	—	12.4	62	37
6	O Mobile Gas Service .....	24	1.10	4.6	1.39Se	11	4	17.3	79	38
8	O New Haven Gas .....	39	2.00	5.1	3.24De'59	5	5	12.0	62	68
18	O New Jersey Nat. Gas ...	28	.90f	5.2f	*1.53Se	* 1	*11	*18.3	59	34
105	O Nor. Illinois Gas .....	43	1.20	2.8	2.02N	21	14	21.3	59	42
11	O North Penn Gas .....	12	.65	5.4	1.18Je	28	7	10.2	55	65
20	O Northwest Nat. Gas ....	24	.84	3.5	*1.58Se	*26	*11	*15.2	53	36
307	S Pacific Lighting .....	53	2.40	4.5	3.10Se	20	2	17.0	77	41
12	O Piedmont Nat. Gas .....	15	.50	3.3	.83Se	14	—	18.1	61	27
2	O Portland Gas Lt. ....	15	.75m	5.0	1.93De'59	D12	13	7.8	39	27
11	A Providence Gas .....	10½	.56	5.3	.58N	D13	5	18.1	97	48
4	A Rio Grande Valley Gas ..	5	.16	3.0	.30Je	D8	7	16.7	53	46
5	O So. Atlantic Gas .....	15	.80	5.3	.87De'59	D28	—	17.2	92	30
16	S So. Jersey Gas .....	28	1.10	3.9	1.44N	13	13	19.4	76	51
36	S United Gas Impr. ....	53	2.40	4.5	3.98Se	14	10	13.3	60	49
63	S Wash. Gas Light .....	54	2.40	4.4	3.98Se	14	3	13.6	60	39
18	O Wash. Nat. Gas .....	27	1.00	3.7	1.57Se	18	20	17.2	64	38
11	O Western Ky. Gas .....	14	.80x	4.2	1.45Se	17	15	13.1	55	36
Averages .....				4.4%		13%	6%	14.9	65%	



## FINANCIAL DATA ON TELEPHONE, WATER, AND TRANSIT STOCKS

Approx. Rev. (Mill.)			1/10/61 Price About	Divi- dend Rate	Approx. Yield	Recent Share Earns.	Per Cent Increase In Share Earn. Recent 5-yr. Avg.	Price- Earn. Ratio	Div. Pay- out	Approx. Common Stock Equity	
Communications											
\$6,771	S	American T. & T. (Cons.)	105	\$3.60h	3.4%	†\$5.52N	7%	4%	†19.0	65%	64%
377	A	Bell Tel. of Canada . . . .	49	2.20	4.5	2.39De'59	12	—	20.5	92	62
51	O	Cin. & Sub. Bell Tel. . . .	97	4.50	4.6	5.57De'59	8	2	17.4	81	77
288	A	Mountain States T. & T.	25	.90	3.6	1.33Au	15	7	18.8	68	59
380	A	New Eng. T. & T. . . . .	41	1.72	4.2	2.33Se	6	7	17.6	74	59
1,040	S	Pacific T. & T. . . . .	32	1.14	3.6	1.45N	1	6	22.0	79	57
128	O	So. New Eng. Tel. . . . .	48	2.20	4.6	2.51De'59	D3	5	19.1	88	65
Averages . . . . .					4.1%		7%	4%	19.2	78%	
Independents											
7	O	Anglo-Canadian Tel. . . .	45	\$1.20	2.7%	\$3.47Je	10%	21%	13.0	35%	44%
45	O	British Col. Tel. . . . .	47	2.20	4.7	2.84Se	8	—	16.5	77	28
4	O	Calif. Inter. Tel. . . . .	15	.70	4.7	.51Se	D45	NC	30.0	137	24
25	O	Calif. Water & Tel. . . .	31	1.36	4.4	1.93Se	D3	5	16.1	70	36
22	O	Central Tel. . . . .	24	.88w	3.7	1.59Se	3	—	15.1	55	33
5	O	Commonwealth Tel. . . .	22	.90	4.1	1.47De'59	9	8	15.0	61	35
5	O	Florida Tel. . . . .	26	1.00	3.8	1.32De'59	32	4	19.7	76	40
1,081	S	General Tel. & Elec. . . .	28	.76	2.7	†1.07Se	D3	10	†26.2	71	43



# FINANCIAL NEWS AND COMMENT

Approx. Rev. (Mill.)		(Continued)	1/10/61 Price About	Divi- dend Rate	Approx. Yield	Recent Share Earnings	Per Cent Increase In Share Earn. Recent	5-yr. Avg.	Price- Earnings Ratio	Div. Pay- out	Approx. Common Stock Equity
25	O	Hawaiian Telephone ....	27	1.00	3.7	†1.48No	19	4	†18.2	68	42
8	O	Inter-Mountain Tel. ....	17	.80	4.7	.77De'59	D15	—	22.1	104	53
9	A	Puerto Rico Tel. ....	51	1.80	3.5	1.93De'59	D1	—	26.5	93	42
26	S	Rochester Tel. ....	24	1.00	4.2	1.48Je	D7	5	16.2	67	36
12	O	Southwestern St. Tel. ..	27	1.20	4.4	1.70Se	15	3	16.0	70	42
13	O	Tel. Service of Ohio ....	28	.36	1.3	1.31Je	40	8	21.4	27	32
42	O	United Utilities ....	46	1.45	3.2	1.95De'59	19	14	23.6	74	39
19	O	West Coast Tel. ....	29	1.20	4.1	1.94De'59	10	5	14.9	62	37
276	S	Western Union ....	45	1.40	3.1	2.59De'59	31	15	17.4	54	87
Averages .....					3.7%		7%	7%	19.3	70%	
Water Companies											
Holding Companies											
48	S	American Water Works .	21	\$ .80	3.8%	\$1.60Se	21%	7%	13.1	50%	19%
Operating Companies											
5	O	Bridgeport Hydraulic ...	39	\$1.70	4.4%	\$1.86De'59	6%	5%	21.0	91%	55%
17	O	Calif. Water Service ...	26	1.20	4.6	1.55N	D10	6	16.8	77	57
5	O	Elizabethtown Water ...	27	1.20	4.4	2.20De'59	17	—	12.3	55	60
12	S	Hackensack Water ....	53	2.40	4.5	*4.36De'59	*32	* 6	*12.2	55	35
10	O	Indianapolis Water ....	26	1.20s	4.6	1.70Se	7	5	15.3	70	34
6	O	Jamaica Water ....	44	2.20	5.0	3.10Se	D3	17	14.2	71	28
5	O	New Haven Water ....	67	3.40	5.1	2.91De'59	D12	—	23.0	117	55
2	O	Ohio Water Service ....	28	1.50b	5.4	1.65Se	D6	—	17.0	91	33
11	O	Pennsylvania Gas & Watr.	28	1.40	5.0	1.82Se	12	6	15.4	77	29
11	O	Phila. & Sub. Water ...	57	1.80v	3.2	3.24Se	7	5	17.6	56	29
3	O	Plainfield Un. Water ...	23	1.10	4.8	2.31De'59	44	12	10.0	43	66
5	O	San Jose Water ....	40	1.30	3.3	2.22Se	D7	10	18.0	59	41
7	O	South. Calif. Water ....	22	1.00	4.5	1.44Se	9	8	15.3	70	36
4	O	Southern Gas & Water ..	24	.80d	7.3d	1.72My	24	5	14.0	47	19
Averages .....					4.7%		12%	6%	15.9	69%	
Transit Companies											
21	O	Baltimore Transit ....	9	—	—	\$1.02De'59	72%	11%	8.8	—	45%
12	O	Cincinnati Transit ....	8	\$ .30	3.8%	.91De'59	193	—	8.8	33%	56
66	S	Fifth Ave. Lines ....	17	1.00t	5.9	.23De'59	—	—	—	—	65
322	S	Greyhound Corp. ....	21	1.00a	4.8	1.81De'59	D5	7	11.6	55	62
26	S	Nat. City Lines ....	22	2.00	9.0	2.22De'59	33	—	9.0	90	92
13	O	Niagara Frontier Trans.	15	.60	4.0	.76De'59	—	—	19.7	79	67
20	A	Pittsburgh Rys. ....	12	.25	2.1	—	—	—	—	—	90
6	O	Rochester Transit ....	7	.40	5.7	1.08De'59	26	—	6.5	37	100
21	O	St. Louis P. S. ....	10	.80	8.0	.77De'59	13	—	13.0	104	93
13	S	Twin City R. T. ....	11	1.00	9.1	.59De'59	146	—	18.6	170	65
20	O	United Transit ....	6	.70	11.7	.89De'59	18	2	6.7	79	54
Averages .....					6.4%		52%	2%	11.4	81%	

A—American Stock Exchange. O—Over-counter or out-of-town exchange. S—New York Stock Exchange. Ja—January; F—February; Ma—March; Ap—April; My—May; Je—June; Jy—July; Au—August; Se—September; Oc—October; N—November; De—December. \*Deferred taxes resulting from liberalized depreciation are not normalized. If normalized, the price-earnings ratio would be higher, and the rate of increase in share earnings would be smaller. †On average shares. D—Decrease. a—Also 10 per cent stock dividend October 24, 1960. b—Also 2 per cent stock dividend September 30, 1960. c—Also one-half per cent stock dividend October 31, 1960. d—Also 1 per cent stock dividend quarterly (included in yield). e—Also 3 per cent stock dividend January 7, 1960. f—Regular annual 2 per cent stock dividend included in yield. g—Stock split 5 for 4 to stockholders of record October 11, 1960. h—Dividend rate of \$3.60 per annum to be established beginning with July 10, 1961, payment. m—Also 10 per cent stock dividend January 15, 1960. q—Indicated new rate after 8-for-1 split July 15, 1960. r—Also 40 per cent stock dividend June 13, 1960. s—One share of 111 Realty Corp. common for each 10 shares held, paid March 31, 1960. t—Paid to date. u—Twenty per cent stock dividend paid January 15, 1960. v—Also 3 per cent stock dividend payable January 6, 1961. (Similar dividend was paid January 7, 1960.) w—Also 1 per cent stock dividend payable December 31, 1960. x—Also 12½ per cent stock dividend payable October 7, 1960. NC—Not comparable.



## What Others Think

### Reactions to the Landis Report

THE report on the regulatory agencies, prepared for President Kennedy by James M. Landis, has produced a great deal of comment in the press. The controversial nature of the report itself, as well as the continued interest of the press in the alleged "regulatory mess," accounts for the volume of comment on this document. The reports of the House and Senate committees on this subject are likely to have a longer-lasting effect on the regulatory pattern of the future than will this special report which was prepared for the President before he assumed office.

One of the most sharply debated features of the report is the proposal to establish an office within the executive branch which would act as an overall coordinator of the regulatory agencies. This so-called "czar," a name decried by Landis as being something not intended at all, will doubtless be Mr. Landis himself. But whether a czar by any other name would still be Landis, or whether Landis by any other name would still be a czar, the fact remains that the proposed machinery for "co-ordinating" the work of the various regulatory commissions points definitely towards centralized policy making from a point of origin within the White House.

The *Pittsburgh Press*, in a recent editorial, took a rather indulgent, if not

favorable, view of this, stating in part:

The "Overseer" suggested by James M. Landis would deal with the machinery through which decisions are reached, rather than the decisions themselves. He would see to it the agencies are doing the job Congress intended—and draft reorganization plans, when necessary, for consideration of the President and the Congress. . . .

Mr. Landis proposes, substantially, to clear away the red tape which is strangling progress and if this job is to be done promptly some kind of "Overseer" is necessary. There are few more urgent tasks before the new Congress and the new President.

A MORE cautious view regarding the strengthening of executive control of the regulatory agencies was voiced by *The Detroit News*. According to this opinion, the troubles of the agencies are a product of their own failure to resist pressures from legislators and White House functionaries, who have real or imagined influence in the executive branch. The paper lauds the Landis proposal to increase the quality of men serving on the commission. Regarding the increase of executive powers in regulatory matters, however, the paper had this to say:

## WHAT OTHERS THINK

But the remainder of Landis' prescription for cure—a far stronger presidential hand in the operations of the regulatory agencies—warrants caution signals. Aside from the bare political question: Will Congress want to thus enhance the power of its chief political rival?—there arises the question of whether it should.

THE proposal to establish offices of coordination for transportation, communication, energy, and oversight of regulatory agencies, all within the executive branch, has also come in for some sharp criticism. *The Wall Street Journal* in the latter part of December, 1960, commented in the following manner regarding this particular proposal:

This, we fear, is a typically bureaucratic approach. Here are a group of bureaus designed to regulate transportation, communications, and other major industries. So what do we get? Proposals for new regulators to regulate the regulators. That is almost the classic device for building up bureaucratic layers.

It ought to be rather plain that such proliferation does not even begin to grapple with the problem it is ostensibly solving. A study of the regulatory agencies ought to address itself in the first place to what the agencies are doing and whether they are trying to do too much in terms of the needs of today's economy. Just finding new federal jobs is a poor substitute for a searching examination.

A GOOD many commentators have noted that the Landis report tends to blacken all of the regulatory agencies, failing to recognize those specific agencies and specific areas in which admirable jobs

have been and are being performed. *The Washington Post and Times Herald* has observed that many of the faults in the regulatory field are the result of "simple and sheer neglect of this important area of government." This paper stated that the effectiveness of corrective measures would depend, to a great extent, on the continued interest supplied by the President.

Commenting on the various defects in the regulatory process, the paper stated:

Some of this is already familiar, and the value of Mr. Landis' catalogue of defects is that it is a one-piece, comprehensive critique. It is important to interject that the criticisms do not fairly apply to all appointees to every regulatory body. The federal commissions are not universally made up of hacks or venal men. Nor does it follow that every person chosen only for expert knowledge would automatically conduct himself with judicial detachment. The report would have been better balanced if Mr. Landis had given more recognition to the conscientious work that is done.

GETTING away from specific criticisms and recommended corrective measures, a number of newspapers took note of the philosophy surrounding the basic premises of regulation itself. The *Journal of Commerce* stated:

... Mr. Landis is quite right in stressing once again the criticism that many others have made before him of the federal regulatory setup. The trouble is not so much that the agencies reach the wrong decisions on important issues. The real trouble is twofold: that they so often take so long to come to any decision at all, and that their rulings frequently have a hit-or-miss

## PUBLIC UTILITIES FORTNIGHTLY

quality that suggests the absence of any valid underlying policy.

As already noted House and Senate subcommittee reports on the regulatory agencies are sure to have a profound influence on any legislative proposals which are offered by the President. A good bit of the Landis report could be enacted without the need for new legislation. However, if the President should adopt the majority of the report, some legislation would have to be enacted.

SENATOR Carroll (Democrat, Colorado), who last year was chairman of a Senate Judiciary subcommittee to look into the regulatory agencies, has called for a crackdown on "pressure groups" which would try to block the President's reforms of the agencies. He lauded the Landis report as "masterful and thought provoking," and he stated that "we must concentrate to beat down the obstructionist tactics" of groups that do not want to see any change in the regulatory agencies.

The now defunct House Subcommittee on Legislative Oversight, formerly headed by Representative Harris (Democrat, Arkansas), filed a majority report which indicated some sharp variance of opinion on just how the faults of the regulatory agencies should be corrected. One of the recommendations of this report would establish a permanent subcommittee on regulatory and administrative commissions which would seem to duplicate much of the duties of the executive co-ordinators which Landis would like to see established.

With this in mind, it seems unlikely that Congress would be happy about entertaining any legislative proposals from the President which would, in effect, give some of the congressional authority in regulatory matters to the executive branch. In such matters Congress is usually zealous to preserve the freedom of the legislative arm of the government. Any such giveaway of congressional authority would surely meet with spirited opposition from both Democrats and Republicans.

Among many comments on the Landis report, that of columnist David Lawrence seems most trenchant:

The truth of the matter is that until the basic issue involved is settled—to what extent these commissions shall remain executive and how judicial matters arising under their operations shall be handled—not much progress is likely to be made on the whole complex problem.

IT remains to be seen if these various groups will come to grips with this basic issue, "the extent these commissions shall remain executive and how judicial matters arising under their operations shall be handled."

In the months ahead we are sure to see many more comments on Mr. Landis' recommendations and it is safe to assume that some of the more far-reaching aspects of the report will be tempered by the President and the Congress.

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## U. S. and Foreign Depreciation Policies

A SHORT while ago the First National City Bank of New York city, in its monthly letter, carried an article entitled "Depreciation Allowances Here and

Abroad." It is the opinion of this article that one of the best ways to stimulate our economy would be to modify the income tax structure, with specific reference to

## WHAT OTHERS THINK

the matter of allowances in calculating income tax liability for depreciation of capital assets.

The article states that continued emphasis in the United States on public spending has resulted in an increasingly heavy tax load which serves to limit the expansion of business. In contrast the European tax structure puts a heavier tax load on the consumer and a lighter load on work and capital accumulation. This emphasis on consumer taxes would seem to put a dangerous burden on the consumer.

However, it must be remembered that because of this shift of the tax burden, industry is in a position to compete in world markets and the accumulation of capital and the inducements to work are stimulated.

**I**N general, the article states, the corporation in the United States is faced with more stringent tax laws than are comparative groups abroad. Liberalized depreciation and its effect on investment is recognized the world over as one of the important economic factors relating to the business growth process. Regarding this aspect of economics, the article states:

... Business finances capital investment from a variety of sources—sales of stock, borrowings, retained earnings, and depreciation allowances. The biggest source is depreciation which, if earned, gives back to a company a portion of its past investments. The more freedom a company has in the timing of depreciation charges, the more opportunity it has to grow. One of the considerations dictating liberalization of depreciation rules is the fact that, in this age of dynamic change mixed up with inflation, large amounts of capital, beyond depreciation allowances, must

be poured into a company to replace its plant and keep up with the times.

**O**WING to inflation, industry has found that allowances made for depreciation in the past twenty years have been far short of meeting replacement needs. The article notes that George Terborgh, research director of the Machinery and Allied Products Institute, has estimated that costs of replacement are outstripping depreciation allowances by some \$6 to \$8 million each year in the United States. Obsolescence is another factor which must be taken into consideration in this age when new processes and techniques render machinery outmoded long before the machinery itself is worn out.

In striking a comparison between U. S. and foreign tax allowances for depreciation on machinery and equipment, the article indicates that our regulations stand out as particularly restrictive. This stringent policy is causing increasing concern as various foreign producers come into direct competition with American products.

In contrast with this strict policy, foreign governments have, as a general rule, established higher depreciation rates permitting faster write-offs of new investments, and some governments have even permitted revaluation of asset values in order to take into consideration the higher replacement costs. This sometimes gives total deductions that are greater than the historical cost of the machine.

**E**VEN though the United Kingdom is looked upon as having the least liberal depreciation policies in Europe, its practices, contrasted with those of the U. S., are most encouraging to private investment. Tax inducements to investment are given in the form of "investment allowances" and "initial allowances."



PUBLIC UTILITIES FORTNIGHTLY



"PLEASE LADY, MAKE UP YOUR MIND—THE COMPANY IS UNDOUBTEDLY WAITING TO DECLARE THE STOCK DIVIDEND"

"Investment allowances" are given over and above the original cost which can be recovered in full irrespective of the investment allowance.

"Initial allowance" is available in the first year, against the original cost, in addition to the regular allowance. In the years following, the regular allowances are applied to the cost thus reduced.

The article states that the most striking features of the British depreciation practices are the use of broad categories

of depreciable property and the liberal allowances in the year of acquisition.

**F**RANCE has more liberal depreciation policies than the United Kingdom. Initial allowances for new investment are provided and in addition more rapid rates of write-offs are permitted, as are revaluations of property to compensate for prior inflation. In relating the further liberal policies of the French government, the article states:

## WHAT OTHERS THINK

Aside from rapid recovery of original costs, France also permits revaluation of assets by applying factors ranging from 1 for assets acquired in 1959 to 243 for assets dating back to 1914 and earlier, and in the case of inventory from 1 for 1959 to 388.9 dating back to 1914 and prior years. These factors are applied to both historic cost and annual depreciation allowances since the date of acquisition. Even property written off completely can have a restored value for additional depreciation.

**T**HE economic recovery of West Germany following the Second World War has been astounding. This article gives a good bit of credit to tax policies which have encouraged private enterprise. Taxes are generally applied at an easier rate than in the United States, and in addition more rapid write-offs of new plants are permitted. Following the Currency Reform Act in 1948 (in which ten "old" marks became one "new" mark) revaluation of assets was authorized for depreciation and tax purposes. Initial allowances for new equipment of up to 50 per cent were permitted for a number of years, although such great amounts have now been discontinued.

German depreciation rates are calculated on the basis of each individual taxpayer. Allowable rates have been published but a taxpayer can claim rates in excess of the published amounts provided they can be justified.

**S**WEDEN has liberal depreciation of actual cost and also permits tax deductions of up to 40 per cent of net income for reserves to stabilize economic activity. Of this amount 40 per cent must be invested with the bank for use as permitted, depending on economic activity and employment. The remainder of the money

can be used as the company sees fit. The article takes care to point out that such liberal treatment of investment does not favor "big business" and that the Swedish programs were all developed under a labor-socialist government which aimed to increase productivity through more investment.

The Belgium government groups assets for depreciation purposes into broad categories with rates ranging from 10 to 25 per cent for machinery. In 1959 special investment allowances of up to 30 per cent were granted but these were limited to new ventures or very large expansion of existing facilities.

One of the interesting aspects of the Netherlands treatment of depreciation is the fact that both the initial allowance and regular depreciation may be taken from the time that a contract is placed, and not, as with most countries, when it is actually put to use. Depreciation allowances, in the Netherlands, which are not covered by profits in any single year may be taken at a later date.

**I**TALY'S rates of tax depreciation vary from 3 to 20 per cent per year. Accelerated depreciation on new plant is provided in the form of an initial allowance which reduces the normal depreciation period by two-fifths.

In conclusion, the article states as follows:

From this review the lesson emerges that tax policies are critically important to the economic strength and growth of any country that looks upon private enterprise to provide the bulk of the jobs and the national product. In the United States people bemoan failures to realize greater economic growth while neglecting tax problems crying for attention.

## PUBLIC UTILITIES FORTNIGHTLY

It is worthy of comment that even socialist governments have pursued liberal policies in the matter of depreciation charges. This was true, for example, under the former Labor government of England as it has been in Sweden.

There has been much talk of examining the matter of our own approach to depreciation allowances. A Senate group has concluded that our policies do not sufficiently encourage the expansion of the national economy, and President Kennedy has promised to investigate.

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### Satellites and the FCC

**R**ECENTLY the Federal Communications Commission decided to review its microwave decision in relation to the potential need for the allocation of spectrum space to support space communications. Dr. Dan Noble, executive vice president of Motorola, Inc., said in his company's magazine *News Gram* that the FCC hearing which was scheduled would develop adequate engineering proof that no special allocations need be designated for satellite communications systems, and that the development of the earth-surface systems may proceed without fear.

Dr. Noble said that probably the most efficient plan for world-wide, wide-band communication would make use of at least three-spaced, stationary relay satellites. Stationary would mean that the orbit of each would be synchronized with the earth's rotation so that the satellite would remain stationary in relation to any point on the earth. To achieve this, the satellite would be placed in orbit around the equator at slightly more than 22,000 miles out. He stated:

... If the problem of equipping such a satellite with a truly reliable relay system (solid state electronics, of course), and with solar energy and atomic energy power sources can be solved, and if the satellite can be placed in the stationary orbit successfully, there is still the question of frequency

bands to be used for relaying the information from the earth to the satellite, and back to earth again. Probably, the frequencies in the range of 89° to about eight or nine megacycles can be used, with a preference for the frequencies in the 2 to 6,000 megacycle band. The frequencies must be high enough so that the energy will not be refracted by the ionosphere, but low enough so that they can penetrate the air and vapor layers without too much attenuation. . . .

**N**OBLE said that it is difficult to predict what the magnitude of frequency demands will be as the use of satellite communications matures. But in the event the simultaneous use of satellite communication frequencies and earth-surface frequencies is not compatible, there will be a possible serious reduction in the number of earth-surface communication channels. Fortunately, he pointed out, it seems that simultaneous use of the channels is compatible. The angle of directional radiation to and from the satellite is such that no interference would be expected to be picked up by the horizontally oriented surface communications antenna systems.

"Similarly, interference would not be expected to develop at the satellite receiver since the angle of radiation from the surface transmitter would be wrong for the delivery of any significant amounts of energy to the satellite," Noble said.

# The March of Events



## REA Loan Report for 1960

**T**HE Rural Electrification Administration has reported that almost 50 per cent of the electric loans approved by it during 1960 were for financing facilities to generate and transmit power in rural areas. It was stated that of a total of \$254.5 million in REA electric loans made in 1960, about \$120 million—or 47.1 per cent—went for generation and transmission purposes. This amount was a sudden increase over the amount approved in 1959—only 27 per cent of the total went for such power loans in that year. The reason for the big jump was the approval in 1960 of a \$25.8 million loan to the Southern Illinois Power Co-operative, a new borrower at Steeleville, Illinois. This was the largest single loan ever made in REA's twenty-five and a half years of operation.

In 1960 telephone loans approved by REA amounted to \$106.9 million while funds actually advanced to telephone borrowers by REA totaled \$105 million. There were 48 new borrowers during the year, raising the total number to 727. To date total loans to telephone companies aggregate \$737 million. Of REA telephone borrowers, 515 are commercial companies and 212 are co-operatives. The 1960 loans will benefit 190,000 subscribers with new

or improved service. Virtually all the phone service provided through REA loans is now modern dial.

## AEC May Be Revamped

**P**LANs to modify the Atomic Energy Commission are being considered by the chairman of the Joint Atomic Energy Committee, Representative Holifield (Democrat, California). He has announced he may hold hearings on possible AEC changes. Holifield expressed concern over the commission's increasing burden of matters such as location of reactors, health hazards, waste disposal, transportation, industrial uses, and the regulation of power rates.

The first tentative step towards lessening this work load was made by Congress two years ago, Holifield said, when legislation was approved enabling qualified state governments to take over control of certain aspects of atomic energy.

The California Congressman warned that the AEC's primary duties of making uranium and plutonium, and manufacturing atomic weapons, were in danger of suffering because of the commission's increasing preoccupation with regulation of atomic energy. He said he was not thinking of changing the AEC control from a

## PUBLIC UTILITIES FORTNIGHTLY

commission to a single manager setup right now, but he might later.

### Gas Rate Boost Trimmed

**T**HE \$15.8 million boost in gas rates proposed by United Gas Pipe Line Company has been cut to \$9.3 million by the Federal Power Commission, amounting to a \$6.5 million reduction. United must refund the excess amount to its customers that was effective until the Federal

Power Commission made its final decision.

One of the issues in the case that the FPC resolved was that of United's attempt to include certain costs incurred in acquiring a new plant as part of its operating expenses. The commission ruled that United could not amortize these costs in its operating expenses, thus passing them along to its customers. Instead the FPC insisted that the company treat them as income deductions chargeable to stockholders.

## Arizona

### Files Lower Rate Schedule

**A**RIZONA PUBLIC SERVICE COMPANY has filed new rate schedules with the Arizona Corporation Commission which have as their objective the lowering of electric charges for commercial and industrial customers of the utility in northern Arizona.

Under the new rates the cost of service would be reduced by about \$400,000 annually for the company's commercial and

industrial customers in the area affected. The treasurer of the company, John L. Liecty, said that over a period of time the increased use of electric energy will more than offset the initial revenue loss. He related that the purpose of the new developmental rate schedules was to provide an incentive for increased use of electric energy which would aid in the continued commercial and industrial growth of the northern part of the state.

## California

### State May Initiate Electric Company Damage Suit

**T**HE attorney general of California has said that his state may take court action against major electrical manufacturing and supply companies, seeking triple damages for alleged price fixing. If the suit materializes, various companies which recently pleaded guilty or "no contest" to federal antitrust charges would be the defendants.

The right of California, for example, to bring suit on behalf of the consuming public of that state is open to serious legal question. Other questions concern the identity of persons entitled to damages

and the amount of distribution, even if awarded.

The state did not indicate how much damages it would seek, but the attorney general believes that customers in California probably lost \$2 billion as a result of pricing collusion on the part of the electrical manufacturing companies. Other states, notably Washington, New York, Wisconsin, and Massachusetts, are reported to be considering similar "class" damage suits.

### Bus Service Subsidized

**W**HAT is believed to be the first city-aid transit service contract in the na-



## THE MARCH OF EVENTS

tion has been signed between the city of Santa Clara and San Jose City Lines. The city council, under the terms of the contract, has promised to cover any losses that may occur in operation of the bus line's new routes between most major neighborhoods and downtown shopping areas for a period of six months. If patronage of the subsidized lines by Santa Clara residents is increasing at the end of this period, the city "probably will continue the subsidy until the lines are self-supporting." This may take from one to two years or even three, according to the transit company.

The motive behind the subsidy plan is one of attracting more shoppers to the downtown section. A number of Santa Clara merchants—who naturally will benefit if the plan succeeds—are sharing in the cost of the new service by establishing a bus validation plan in co-operation with the transit company. These retailers will stamp any customer's bus ticket who buys \$3 or more in any merchant's store. This entitles the customer to ride home on the bus without charge.

## Water, Power Plans Pushed

**T**HE Los Angeles Department of Water and Power will start an \$80 million construction program this year to meet the city's anticipated growth. This new investment in facilities will bring the city-owned utility's total assets well above \$1 billion.

Provisions for both water and electric power facilities are scheduled under the heavy construction program. The largest project in the power system construction is Haynes steam-generating plant near Seal Beach. First two generator units of this plant will cost about \$57 million. Power from this plant is expected to become available in the fall of 1962.

The first completely underground power distribution station ever to be built by the department will be installed before the end of the year. It will cost about \$1.4 million.

The average number of electric customers served by the department in the past year was 926,716. This is an increase of 24,053 for the twelve months.

## Michigan

### Compromise Gas Plan Filed

**P**ANHANDLE EASTERN PIPE LINE COMPANY has filed a plan with the Federal Power Commission which it hopes might end its long fight to abandon natural gas deliveries to Michigan Consolidated Gas Company, a subsidiary of American Natural Gas Company, in the Detroit area.

By it Panhandle offered to supply Michigan Consolidated with a substantial amount of gas for seven months of the year and asked for permission to proceed with its \$77 million expansion of transmission facilities. Originally Panhandle had asked authority to stop delivering 127

million cubic feet a day to Michigan Consolidated. Under the compromise plan, a subsidiary Trunkline Gas Company, would supply 100 million cubic feet a day to the Detroit utility from April through October.

In December of last year the Supreme Court let stand a lower court ruling which set aside FPC approval of Panhandle's proposed abandonment. Hearings to reconsider the matter started January 31st. Michigan Consolidated is on record as definitely opposing the Panhandle plan and filed a plan of its own whereby it would buy the total amount of annual gas from Panhandle in summer months and store it in underground fields.

## Oregon

### BPA Reports Extra Power

**T**HE Bonneville Power Administration announced in January that for the first time in nearly fifteen years it had a surplus of power available. According to William A. Pearl, Bonneville Administrator, the big power agency, which markets power from 13 federal dams in the Columbia basin, usually does not have enough power to meet customer demands.

Pearl forecast a drop in power sales in 1961, however, but he was sanguine about the outlook for the rest of the decade. He based his optimism on the U.S.-Canadian

treaty which has been negotiated for upriver dams, including Libby dam. Under this treaty, recently approved by both governments, about 1,686,000 kilowatts of power at low cost would be made available to the United States over the next ten years.

Gross revenues of BPA for 1960 were \$71.2 million, an increase of \$2.5 million over 1959. Pearl estimated power sales would drop \$1.7 million this year, but other power servicing would offset about \$1 million of that figure. Revenues should turn upward in 1962, he said.

## Pennsylvania

### Gas Rebate Fight Waged

**T**HE city of Pittsburgh has joined a legal battle aimed at the FPC to allow future rate rebates by a wholesale gas supplier. It is pressing a fight against an FPC ruling that United Fuel Gas Company of Charleston, West Virginia, was to rebate \$400,000 and no more to Manufacturers Light & Heat Company. The city was joined by the public utility commission, the cities of Columbus and Cincinnati, Ohio, and several Kentucky communities in a court action in the U. S.

fourth circuit court of appeals in Richmond, Virginia.

City Solicitor David Stahl said the FPC ruling renders virtually useless an appeal now being pressed for an additional \$7 million rebate to United Gas wholesale customers, of which about \$700,000 would go to Manufacturers.

He pointed out that even if the communities and the state commission should win their appeal for an additional \$7 million, United Gas would be protected from paying by the FPC ruling.

## Wisconsin

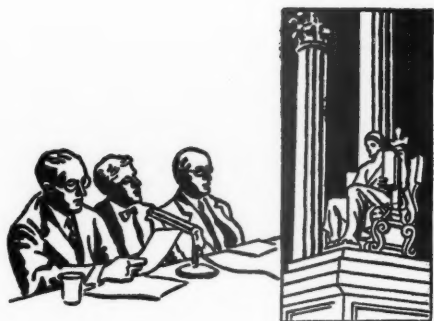
### Utilities Form Power Pool

**T**wo Wisconsin utilities, Wisconsin Public Service Corporation and Wisconsin Power & Light Company, have announced their intention of forming an electric power pool in the interest of sharing each other's generating capacities.

They hope by so doing to cut costs. It would enable them to build larger, more efficient plants and enable them to prolong the periods between additions. They

pointed out that it would cost \$165 a kilowatt to build a 75,000-kilowatt plant, whereas a 150,000-kilowatt plant could be built for \$132 per kilowatt. Larger units can cut fuel costs by 5 per cent, too, they declared.

The two adjoining electric systems have a 138,000-volt tie line between Oshkosh and Fond du Lac, Wisconsin, for exchange of power. More high capacity links may be built as circumstances require.



## Progress of Regulation

### *Trends and Topics*

#### Full Crew Laws

PROPOSALS for repeal or relaxation of outdated laws requiring a specified number of crew members on railroad trains are being brought to the attention of state legislatures. In New York, for example, the governor believes relief from unnecessary expense imposed by full crew laws is one means of saving this important transportation industry from financial ruin. The purpose of full crew laws, enacted at a time when modern equipment and safety devices had not been developed, was to insure safe operation. Labor unions, however, have exerted pressure to preserve and interpret these laws in order to keep and create jobs—one form of “featherbedding.”

A look at some of the reported decisions on the application of full crew laws reveals strenuous efforts to make more jobs, but courts and commissions have often refused to go along with unreasonable suggestions by the unions.

#### *Disapproval of Unnecessary Man Power*

The purpose of a full crew statute, in the words of the Ohio supreme court, is to protect railroad employees and passengers. The court held that the New York Central Railroad Company, in permitting a through freight train to enter onto a main track from a passing siding and to move on the main track with one engineer, one fireman, one conductor, and one brakeman aboard, leaving the second brakeman behind, was not a violation of the law. Interpretation of the statute as requiring that all five crew members be aboard a through train whenever moving on a main track, said the court, failed to recognize the duties of a flagman or rear brakeman which require him, at times, to be on the ground in the interest of safety and to remain behind to protect his train and a following train against collision or derailment from any defective tracks (2 PUR3d 315).

The Transportation Brotherhoods Co-operative Legislative Committee once brought a complaint that the New York Central Railroad violated the Ohio full crew law in operating an “eye examination train” consisting of a locomotive and tender and an “eye car” and a “rider car.” The Ohio commission

## PUBLIC UTILITIES FORTNIGHTLY

concluded that, although there had been a violation with respect to a switching movement, the "eye examination train" in question was neither a passenger train nor a freight train, and the law was not violated by its operation on the main line. One car was used to conduct eye examinations of employees and another car was used to transport the conductor while the train was moving. An eye examiner, besides conducting examinations, worked on reports while the train was moving between stops. The commission said he certainly could not be regarded as a passenger. Furthermore, there was no transportation of freight (4 PUR3d 461).

The New York commission had occasion to interpret a statute requiring a five-man crew when the Brotherhood of Railroad Trainmen complained against the use of a three-man crew for the hauling of individual pieces of motive equipment or a car in and out of a repair shop, or movements about the shop yard for inspection and repair. The commission said there was nothing from the standpoint of safety to show that the three-man crew used for many years was inadequate, and a larger crew should not be mandated unless the statute required it. This, the commission decided, was not required. Movements in the repair shop and yard were virtually isolated from all other operations of the railroad. No main or branch line tracks went through the repair yard (19 PUR3d 33).

The Brotherhood of Railroad Trainmen made an unsuccessful effort to obtain from the Massachusetts commission an order requiring an increase in the number of employees on a single unit self-propelled passenger car. The commission concluded that it would be unreasonable to require a third crew member on such cars where one more man would accomplish nothing which could not be handled by the present two-man crew in the absence of absurd hypotheses, such as the simultaneous death or disability of both the engineer and the conductor. The commission expressed the opinion that railroads should not be required to man passenger trains with full crews unless clearly in the public interest since the financial condition of railroads generally requires scrutiny of any proposal resulting in increased expense (92 PUR NS 298).

The Missouri commission, in dismissing a complaint by the Brotherhood of Railroad Trainmen against the Atchison, Topeka & Santa Fe Railway System, said that the use of additional crew members should not be required where their services would not contribute materially to the safety of the public or the employees even though concededly transportation would be accelerated. Slowing of transportation is not necessarily hazardous. The commission also said that a contract between a railroad and a union in regard to the number of employees to be engaged in certain work is ineffective to prevent such remedial and corrective measures by the commission in the furtherance of its duties as the facts may warrant (64 PUR NS 504).

A federal court granted an injunction in an action by the Pullman Company and railroads to restrain enforcement of an order forbidding the operation of a Pullman car on a train unless such car was in charge of a Pullman

## PROGRESS OF REGULATION

conductor. The court held that the order was not sustained by the statute fixing the necessary members of a train crew (35 PUR NS 507).

The Nebraska commission decided that where a railroad employee was doing double duty as a porter and brakeman, or flagman, and had successfully passed all the examinations, both physical and mental, required by the rules of the Missouri Pacific Railroad Corporation, and where such double duties did not interfere with each other, the company was complying fully with the full crew statute. The Nebraska legislative board of the Brotherhood of Railroad Trainmen had filed a complaint against the railroad in an attempt to require the railroad to employ an additional brakeman or flagman (PUR1932B 526).

### *Extra Man on Diesel Engine*

The Arizona commission held that a two-unit locomotive powered by the diesel-type engine in which the engine man seated at the controls must keep his feet upon the automatic control while the locomotive was in motion, should at all times be manned by two men in the cab, although the locomotive was equipped with devices whereby the engine man might communicate with other employees on the diesel unit. The commission said it was obvious that the engine man's attention must be directed to the immediate control of the train. The commission, however, held that there was no justification for requiring regular train crews to man weed burners, rail detectors, and other equipment of a kindred nature when in operation outside of yard limits (23 PUR NS 214).

### *Full Crew Law Applies Only to Railroads*

An attempt by the Brotherhood of Locomotive Fireman and Enginemen and the Brotherhood of Railroad Trainmen to compel the application of full crew laws to switching service within the plant of the Republic Steel Corporation met with failure. The Ohio supreme court decided that the corporation, engaged in the manufacture of steel and owning and maintaining numerous railroad tracks within the limits of its plant, over which tracks its own locomotives were operated solely in the switching of cars specially designed for the handling of its materials and products, used in the business of steel manufacturing and in the switching of standard freight cars, did not make the manufacturing corporation a common carrier subject to the full crew laws (76 PUR NS 227).

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## *Review of Current Cases*

### **Low Equity Capital Allowance Necessitates Second Reversal of Telephone Rate Order**

**I**N a second round of appeals, the Alabama circuit court set aside a commis-

sion rate order relating to Southern Bell Telephone and Telegraph Company, on



## PUBLIC UTILITIES FORTNIGHTLY

the ground that the administrative body had ignored "plain and undisputed evidence" in determining the allowable rate of return. This case began in early 1954 when Southern Bell sought a rate increase and the commission denied it in its entirety (4 PUR3d 195), finding that 5.97 per cent was an adequate return for the company on a net investment rate base. The order was overturned on appeal, and by supersedeas order the proposed rates were put into effect under bond. The rate of return was found to be confiscatory and the reasonable value of property was required to be used in the rate base rather than net investment.

On remand from the Alabama supreme court (26 PUR3d 400), further hearings were held in 1959, at which time the company presented additional evidence on revenues, expenses, value of intrastate properties, and rates of return actually earned during the intervening five-year period. Testimony was also introduced on the cost of capital and fair rate of return for the past periods and for the immediately foreseeable future. From the commission's order granting a modified rate increase (31 PUR3d 254), the instant appeal was taken.

### *Measure of Value for Rate Base*

In determining the reasonable value of the company's intrastate properties, the commission gave approximately one-third weight each to reproduction cost new depreciated, original cost depreciated, and invested capital. There was evidence in the record relating to additional elements but these were not assigned any specific weight. The court thought the weight given reproduction cost depreciated was questionable in view of the level of prices generally over the past periods and for the foreseeable future. There is nothing in the statutes in regard to the use of in-

vested capital, and it appeared that the effect of its use by the commission was to give double weight to original cost. Actually, the commission's value base was only about 4 per cent above original cost less depreciation. However, since the last full reasonable value study of the company's properties in Alabama was made more than five years ago, the court could not say that the commission was manifestly wrong on this aspect of the case.

### *Undisputed Evidence on Equity Return*

There was no substantial controversy about the commission's use of a capital structure of 65 per cent equity and 35 per cent debt in arriving at the overall rate of return to be allowed. Nor was the allowance for the debt component seriously challenged. But the commission's allowance for the equity component was alleged to be confiscatory.

The court observed that the commission had determined the equity allowance by lifting out of a lengthy exhibit one statistic: The earnings-market price ratios of a group of 24 electric companies, with an addition of 5 per cent for cost of financing. From these ratios, the commission found a fair allowance of from 6.4 per cent to 7.1 per cent for Southern Bell's equity component. Neither the evidence nor any reasonable inference from it supports this finding, the court declared.

It was held, on the contrary, that the evidence, both in the 1954 hearings and in the further proceedings on remand, "discloses unquestionably that a minimum of 8.5 per cent is required for the equity component." The court noted that the commission's witness in the 1954 hearing testified to this effect, and that the commission itself found in its 1954 order that the weight of the evidence required

## PROGRESS OF REGULATION

8.5 per cent for equity. Confirming the reasonableness of this figure, the court pointed to undisputed evidence of the earnings of comparable utilities on their equity capital.

Applying the 8.5 per cent allowance for equity along with the accepted allowance for debt capital, and using the adopted capital structure, the court calculated the lowest overall rate of return for the five-year period that could be supported by the evidence of record. This rate of return ranged from 6.54 per cent to 6.89 per cent, the latter being determined as of September 30, 1958, for the future. The

commission had found, for the future, only 5.57 per cent, though it recognized that the last interest rate paid by the company for long-term debt, admittedly cheaper than equity capital, was 5.42 per cent.

The case was remanded to the commission for further proceedings in accordance with the court's opinion. Under the court's determination of a minimum rate of return, Southern Bell will have to refund to its subscribers approximately \$7 million. *Southern Bell Teleph. & Teleg. Co. v. Alabama Pub. Service Commission*, No. 27100, November 11, 1960.



### By-products Operation Included in Rate Base Of Manufactured Gas Company

THE Hawaii commission granted the Honolulu Gas Company, Ltd., a rate increase amounting to 4.45 per cent of test-year gas revenues. This is slightly more than a recent interim surcharge authorized pending the decision in this proceeding. The new rates will produce a rate of return of 6.6 per cent on a rate base of \$10.2 million which includes by-products operations. This is somewhat less than the requested increase of about 10 per cent of test-year revenues, or about 7.25 per cent return on the applicant's proposed rate base of \$9.8 million.

#### *By-products Operations*

The by-products operation—tar, benzene, toluene, and xylene—of the manufactured oil-gas operation of the company was deemed a utility function since the extraction of the by-products is an essential and necessary part of the oil-gas production process. It is a secondary consideration, said the commission, that in order to obtain a more marketable product, some additional plant facilities have been added. To separate the by-product

operation costwise, on the books, from the gas-making operation would necessarily require allocations and prorations. But no adequate allocation was offered for the record.

Viewing the by-product operation as "part and parcel of the gas-making process," the commission indicated that it must be folded into the process costwise, with any advantages or disadvantages reflected in utility rates. It was observed that should by-products become unprofitable, even as a nonutility, the loss would, in effect, be carried by the utility, for the common stock earnings and dividends of the Honolulu Gas Company, Ltd., would be reflected in the overall financial results of operations. The commission regarded as scarcely worthy of mention the proposition that treating the by-products operation as a utility function might diminish managerial incentive in the overall corporate operation.

The commission directed the staff to continue its investigation, currently in progress, into the public utility status of all operations of Honolulu Gas.

## PUBLIC UTILITIES FORTNIGHTLY

### *Working Capital Allowance*

Materials and supplies were allowed according to the books of the applicant. The allowance was substantiated by the monthly reports filed with the commission. The company complained, however, that this allowance ignored the fact that the bulk of the utility's inventory was carried, for accounting convenience only, on the books of the Honolulu Gas Equipment Company. One set of figures cannot be reported and reflected on the company's books, month in and month out, said the commission, and then be thrown out in a rate proceeding and another set of figures substituted. The company was directed to conform to the Uniform System of Accounts for gas utilities. Tax accruals, which are available for corporate use, were taken into account in determining the working cash allowance.

### *Sales Promotion Expense*

The company claimed sales promotion expense amounting to \$9.42 per customer, or 7.43 per cent of gross gas revenues. For rate-making purposes only \$7 per customer was allowed, or 5.52 per cent of gross revenues. The commission stated that it did not seek to tell management how much it may spend for sales promotion, but merely that no more than the allowed amount may be charged against customers. It was noted that other island utilities had substantially lower expenses

for this item and that mainland gas companies averaged only about 2 per cent. On the other hand, evidence showed that the company's gas operations were at an economic disadvantage both because of the relatively high cost of manufactured gas and because such gas is limited essentially to cooking and water heating, which places it in direct competition with an aggressive electric service.

### *Accelerated Depreciation*

In connection with accelerated depreciation taken by the company, the commission ruled that the financial results of operations must be normalized for rate-making purposes. In this way the rates paid by customers are neither increased nor decreased by the rapid write off. Under the commission's practice, it was felt that the stockholders were treated fairly, with limited advantage from interest-free money in the reserve accruals.

A deferred tax reserve is used to meet future deferred tax payments. It is deducted from the rate base. The applicant urged that because its earnings were subnormal in 1959, it should not now be penalized by a deduction from its rate base for this period of accruals. Rejecting this contention, the commission pointed out that past losses or gains are not subject to change in the process of fixing rates for the future. *Re Honolulu Gas Co., Ltd. Docket No. 1402, October 27, 1960.*



## Capital Cost of Parent System Figures in Telephone Cost of Service and Return

THE West Virginia commission granted The Chesapeake and Potomac Telephone Company of West Virginia a rate increase of nearly \$3.4 million in additional revenues. This was calcu-

lated to yield a return of 6.45 per cent on an average net investment rate base. The company sought a rate of return of 7.04 per cent. A refund was required of the difference between the revenues here au-

## PROGRESS OF REGULATION

thorized and a greater amount being collected under bond.

Construction work in progress was excluded from the rate base since interest is permitted to be capitalized. Charitable contributions were disallowed as an operating expense, as was the nonrecurring cost incurred by the company in moving into a new building.

### *Attrition Allowance*

An allowance for attrition was granted. The commission observed that the company's investment per telephone in 1945 was \$173, and in 1959 \$365. Ten years ago 50 per cent of the company's telephones were dial operated, while 82 per cent were dial operated in 1960. Net earnings from additional revenues resulting from increased investments have not kept pace with additions to plant. A large part of the increased investment has been made to improve facilities rather than to acquire new customers.

### *Capital Structure and Debt Cost*

Chesapeake and Potomac is a wholly owned subsidiary of American Telephone and Telegraph Company. Until recently it received all of its investment capital from the parent. The commission has in prior cases used the parent system's capital structure of 35 per cent debt and 65 per cent equity in calculating credits to cost of service resulting from the payment of federal income taxes. In the early part of 1960, Chesapeake and Potomac sold an

issue of its own debt securities amounting to about 20 per cent of its total capital structure. The company contended that for the purpose of calculating credits to cost of service for the payment of federal income taxes, the debt ratio should be taken as 20 per cent debt and 80 per cent equity, using the interest rate on the recent debt issue.

On this question the commission held that the interest cost to Chesapeake and Potomac should be averaged with the lower embedded cost of debt capital to the Bell system both in calculating rate of return and in determining credits to cost of service in connection with federal tax liability of the subsidiary. The debt ratio of the Bell system would be used for both purposes.

### *Rate Questions*

The commission found no cause for objection to the company's long-standing practice of granting reduced rates or free service to employees, depending upon the nature of their duties and length of service. The company proposed to include a tariff provision for the automatic reclassification of exchanges upon a change in the number of subscribers. This proposal was disapproved, however, on the ground that notice must be given to the public and an opportunity afforded for affected patrons to be heard. *Re Chesapeake & P. Teleph. Co. of West Virginia, Case No. 5103, November 17, 1960, December 8, 1960.*



## State Commission Lacks Power to Fix Minimum Freight Rates

THE Iowa supreme court reversed a commission order fixing minimum rates for the transportation of petroleum

products by rail. The commission has no power to establish minimum rates, the court held, as distinguished from reason-

## PUBLIC UTILITIES FORTNIGHTLY

able maximum rates to be charged by common carriers by rail within the state. The commission has no powers except those expressly given and those incidental to or implied in connection with the powers granted.

There was no statutory authority for

the commission to fix minimum rates. Barring such statutory power, the commission could not adjust railroad rates for the protection of competing carriers. *Chicago, B. & Q. R. Co. et al. v. Iowa State Commerce Commission*, 105 NW2d 633.



### Commission Denial of Motor Common Carrier Rate Increase Unreasonable

THE Nebraska supreme court reversed a commission order which had denied a motor common carrier's application for an increase in rates for the intrastate transportation of oil field equipment, commodities, and supplies. The primary issue was whether the proposed rates and charges were fair and reasonable for the transportation of such commodities in intrastate commerce, notwithstanding that the rates for the same service in interstate commerce were less.

The reviewing court refused to substitute its judgment for that of the commission on the resolution of conflicting evidence.

However, it found that the state commission power had been exercised without regard to the undisputed or admitted

facts and without proper application of the law to such facts, all of which made the order arbitrary and unreasonable.

The evidence established that the ratio of the carrier's revenue to operating expense was 100 to 105.2. The commission and the parties apparently had agreed that this ratio was a proper formula for determining what rate would yield an adequate return. There had also been agreement that the carrier's ratio of 100 to 105.2 was out of proportion to the ratio which would produce a compensatory return—100 to 93. Therefore, the rate increase was required, and the commission's refusal to grant the increase was arbitrary and unreasonable. *L. W. Whitlock Truck Service, Inc. v. Shippers Oil Field Traffic Asso.* 105 NW2d 588.



### Commission Jurisdiction over Municipal Sewer Plant Upheld

THE West Virginia supreme court of appeals held that the commission had jurisdiction to supervise and regulate the municipal sewer system of the city of Wheeling. In the exercise of such jurisdiction, the commission could hear and determine a complaint involved in a pending proceeding against the city relating to extension of the facilities and services of its sewer system.

The policy of the law of the state, pointed out the court, is that all public utilities, whether publicly or privately owned, shall be subject to the supervision of the commission. The commission has the statutory power and authority to control the facilities, charges, and services of all utilities and to hear and determine the complaints of persons entitled to the services which such utilities afford. The



## PROGRESS OF REGULATION

only limitation upon such power and authority is that the requirements shall not be contrary to law and that they shall be just and fair, just and reasonable, and just and proper.

### *Statutory Construction*

The municipality had sought a writ of prohibition to prevent the commission from entertaining and exercising jurisdiction over a landowner's complaint against the plant's refusal to extend facilities to the subdivision he was developing. The contention was advanced that the statute vesting the commission with jurisdiction over municipal utility plants had been repealed by implication by a later statute authorizing municipal corporations to own, construct, and maintain sewer systems under the control of a sanitary board and to operate and control such systems and to order and complete any extensions that the board might deem expedient.

Repeal of a statute by implication is not favored in law. To repeal a statute by

implication there must be such positive repugnancy between the provisions of the new statute and the old statute that they cannot stand together or be consistently reconciled.

A statute which revises the whole subject matter of a former statute and which is evidently intended by the legislature as a substitute for such former statute, although it contains no express words to that effect, operates to repeal the former statute. Statutes relating to the same subject, regardless of the time of their enactment and whether the later statute refers to the former statute, are to be read and construed together and considered as a single statute, the parts of which had been enacted at the same time.

Applying these rules of statutory construction, the court held that the statute vesting the commission with jurisdiction over municipal utility plants had not been repealed by implication. The writ was denied. *West Virginia ex rel. City of Wheeling v. Renick et al.* 116 Se2d 763.



## Abandonment of Service Brings Statutory Revocation of Certificate

THE Florida supreme court sustained the commission in revoking a portion of the certificate of a motor carrier on the grounds of abandonment of service. The company ceased operating over a portion of its route in 1948. It claimed that it was granted a suspension by the commission as a result of the approval of a schedule change. But the court agreed with the commission that the mere approval of a schedule change would not constitute permission to discontinue the service, particularly where the discontinuance was not called to the commission's attention at the time.

In any event the statute in effect in

1948 authorized the commission to grant only a "temporary suspension" for good cause, and even if a suspension were granted, as alleged by the carrier, the ten-year discontinuance here involved could not qualify as a "temporary" suspension.

The carrier urged that the commission's action in reissuing its certificate in March, 1957, with the questioned portion of the route carried over from the former certificate, showed consent to a continuing suspension. Even if this were true, the operating rights had been abandoned under a self-executing statute enacted in May, 1957, which provided that failure to operate for six months without formal

approval by the commission renders the certificate dormant and abandoned. Revocation in such case was made mandatory. Therefore, in this case, when the discontinuance had extended for six months after the statute became effective,

abandonment was complete, the certificate was revoked, and operations could not be resumed over the subject route except in the manner provided by statute. *Greyhound Corp. v. Carter et al.* 123 So2d 697.



## Denial of Retroactive Rate Relief Held Unreasonable Despite Liberal Dividends

THE New Hampshire supreme court held that the commission was unreasonable in refusing to permit a temporary water rate increase, authorized in March, to be applied retroactively to include the first quarter of the year. On the company's rate application filed in January, the commission had allowed the temporary increase to take effect at the beginning of the second quarter billing period as "an orderly and convenient point" at which to make new rates effective. But the court could find no good reason why January 1st would not also be a convenient beginning point. The evidence indicated that unless the temporary rates were made retroactively effective, the company would earn substantially less than a fair return during the first quarter, and the loss could not be recouped.

### *Profits, Capital Cost, and Dividends*

In support of the commission order, attention was directed to a recent sale of a tract of land by the utility at a substantial profit, which was credited to non-operating revenue. The land had been included in the rate base for previous years and taxes on it had been deducted from operating revenue in determining rate of return. The court observed that the commission would consider the tax and rate base questions when it fixed final rates for the company. But the profit on such a sale belongs to the stockholders. No good rea-

son appeared in these circumstances to deny the retroactive rate relief.

It was also pointed out, in support of the order, that the company had recovered nearly all of its long-term debt through annual operating charges for depreciation, and that the debt was probably incurred to finance purchases of plant. It was argued that prudent management would establish an asset fund account and a corresponding reservation of earned surplus which would increase yearly and be used for plant replacement so that the ratepayer would not have to carry both annual depreciation expenses and the cost of refinancing the long-term debt.

Again the court considered this no reason to deny the retroactive rate increase. In the first place, matters of policy as to the methods of operating the business are, within the bounds of reason, the prerogative of management. Secondly, the purpose of depreciation charges is to preserve intact the original investment. If the assets are not replaced as they are used up, the business is, in effect, being gradually liquidated. The assets retained in the business as a result of depreciation charges may be used either to repay indebtedness or for the replacement of worn-out equipment. The utility, and therefore those whom it serves, must bear the expense of both depreciation and the cost of capital.

It was shown that the company pays a

## PROGRESS OF REGULATION

dividend of 5.4 per cent, which is not an unreasonable dividend. However this may be, the court declared, the fact remains that the company would earn less than a fair return in 1960 under the commission's order, and the dividend rate was no sufficient basis for denying a reasonable rate of return for the first quarter.

### *Power to Make Retroactive Rates*

Finally, the argument was offered that it may be beyond the commission's au-

thority to grant retroactive rate relief for the first quarter.

But the state supreme court thought the statute recognized that retroactivity may be desirable on occasion. In view of the company's practice of billing quarterly, it was held that the limits of permissible retroactivity would not be exceeded by an order establishing temporary rates retroactive for a single quarter. *Pennichuck Water Works v. State of New Hampshire*, 164 A2d 669.



## CATCO Rule Upsets Gas Producer Price Allowed In Unconditional Certificate Grant

ON authority of the recent CATCO rule (29 PUR3d 70), the New York commission, in review proceedings before the federal appeals court for the District of Columbia, obtained reversal of another Federal Power Commission order (30 PUR3d 166) in so far as it granted unconditional certification of natural gas producer sales at proposed initial prices. In the CATCO case, the Supreme Court had overturned an unconditional certification of producer sales at an initial price of 22.4 cents per Mcf, which included a state tax of one cent. In the instant case, the commission certificated producer sales, in the same general area as was involved in CATCO, at an initial price in excess of 23 cents, including a Louisiana severance tax of 2.05 cents. This action was held to be inconsistent with the Supreme Court's pronouncement and without substantial evidence to support it.

### *High Prices Supported or Conditioned*

CATCO pointed out that because of the inordinate delays, without protection of refund, which are incident to a § 5 proceeding under the Natural Gas Act to

reduce unreasonable initial prices, the commission must give "a most careful scrutiny and responsible reaction to initial price proposals of producers under § 7." The appeals court interpreted CATCO as posing two alternative courses for the commission in cases where certification is sought at prices which are "suspiciously higher" than other prices in the area, or which in some other way will tend to have an inflationary impact upon the natural gas market. The commission can attach conditions to protect the public interest while other rate-testing procedures are in process, or it may grant unconditional certification upon evidence sufficient to support a finding of public convenience and necessity.

The commission contended that the initial prices in the instant case do not fall within the scope of the CATCO rule because they are in keeping with numerous other certified sales in the area. But the court was "reluctant to endorse so dubious a standard of reference," noting that presumably the high price certifications which followed the commission's CATCO certification are as much subject to explanation as the CATCO price itself.

## PUBLIC UTILITIES FORTNIGHTLY

### *Evidence Insufficient*

Although the commission's order in the present case was issued a month after the Supreme Court decided the CATCO case, the evidence was taken before the court's opinion was rendered, and thus before it had become known that additional explanatory proof would be required to support inflated prices. The commission took the position that 23 cents was not out of line and that the evidence in the record was, therefore, sufficient justification. The bulk of the evidence was to the effect that the contracts were negotiated at arm's length and that the sales would not have been contracted at any lower price. This

is not enough, said the court, to satisfy the requirements of CATCO.

The Supreme Court meant to impress upon the commission an interpretation of the public interest which, in the context of a rising natural gas market, demands a real administrative effort to hold back prices, the appeals court declared. The case was remanded to the commission for further proceedings to enable the producers to offer additional evidence to support a certification without price conditions, or to seek a certification appropriately conditioned. *New York Pub. Service Commission v. Federal Power Commission*, No. 15,461, December 8, 1960.



### Evidentiary Support Required for High Gas Lease Cost in Pipeline Project Certification

ON petition for review brought by the New York commission, a federal appeals court reversed an order of the Federal Power Commission which unconditionally authorized a pipeline expansion project of Texas Eastern Transmission Corporation involving gas supplies through the purchase of gas leases rather than by way of ordinary gas service from producers.

Following recent judicial disapproval of a price of 22.4 cents per Mcf, including tax, for offshore Louisiana gas, several producers in the Rayne field area of southern Louisiana canceled sales contracts with Texas Eastern providing for a price of 23.9 cents. Texas Eastern thereupon proposed to acquire leasehold interests in the reserves formerly committed to the contracts, for a total price of some \$135 million. The federal commission urged that because the acquisitions, in their revised form, were non-jurisdictional, it was under no obligation

to determine whether the price to be paid by Texas Eastern for the gas was consonant with the public interest as a prerequisite to certification of the pipeline project. Texas Eastern also took this position.

The court recognized that it was within the federal commission's power to certificate the project without passing upon the financial merits of the gas acquisition arrangement. It observed, however, that the opinion and order appeared to approve the pricing aspects of the lease acquisitions without substantial evidence in the record to support such approval. In this respect the order could not stand.

#### *CATCO Rule Applies*

The New York commission claimed that the total cost to Texas Eastern for each Mcf of Rayne field gas would be 22.89 cents, including tax. While the federal commission questioned some aspects of the state commission's calculations, the

## PROGRESS OF REGULATION

court thought it clear that the price was high enough to be in the disputed area to which the CATCO rule (29 PUR3d 70) applies. Even though in subsequent rate proceedings instituted under § 5 of the Natural Gas Act the commission might properly inquire behind the negotiated acquisition costs, said the court, the "high interminable" delay associated with such proceedings makes it essential that any proposal under § 7 be subjected to a careful scrutiny.

Under the CATCO rule, where a company seeks an unconditional certificate to make new sales at proposed prices which are out of line with existing prices, it is under an obligation to demonstrate the reasons why such increased prices are justified by the public convenience and necessity. The commission may not act merely upon proof that such prices are arrived at as a result of arm's-length negotiation, but must look behind the negotiated prices. Nor can the commission abdicate its responsibilities simply because the parties indicate that the whole transaction will collapse unless the full price asked is approved, said the court.

It is of no importance here, the court declared, that the transactions by which Texas Eastern proposes to acquire the gas will themselves be, by virtue of a change in form, beyond the regulatory control of the commission. The pipeline construction project and the transactions by which Texas Eastern will dispose of the gas thus acquired clearly are within the commission's jurisdiction. The relevance of Texas Eastern's acquisition costs to these matters is unaffected by the form of the transaction. The commission's warrant to inquire arises by virtue of its responsibility to regulate the purchaser, regardless of the status of the seller, it was pointed out. On remand, two courses are open to the commission. It may clarify its order by expressly disclaiming any approval of the price to be paid for natural gas by Texas Eastern, or it may reopen the record to permit the company to establish that the acquisition costs which it proposes to incur will be consistent with the public convenience and necessity. *New York Pub. Service Commission v. Federal Power Commission*, No. 15,412, December 8, 1960.



### Direct Service from Different Telephone Company

THE Wisconsin commission ordered a telephone company to serve residents in a certain area on a direct basis. The residents were formerly served by the exchange of another company. The commission made it clear that its approval should not be construed as meaning that if a group of customers discontinued service from a particular exchange, such action would, in effect, automatically enable them to obtain service from another exchange.

Each case would be determined on its merits, the commission said, with consideration given to the interests of the utilities involved, the interest of the customers immediately affected, and the interests of all customers who may be ultimately affected. Any loss of customers or potential customers at an exchange could create a situation which would be adverse to the interests of the remaining customers. *Re Karis et al. 2-U-5441*, November 14, 1960.





## Gas Company Obtains Supplemental Pipeline Supply

**L**YNCHBURG GAS COMPANY has won a Federal Power Commission order directing Transcontinental Gas Pipe Line Corporation to furnish up to 2,000 Mcf of gas per day in addition to the 7,000 Mcf it receives from its regular supplier, Atlantic Seaboard Corporation. Transco will establish physical connection with a pipeline subsidiary of Lynchburg for transportation of the gas to the company's distributing system.

Seaboard, a customer of Transco, opposed Lynchburg's application. In order for Seaboard to supply additional gas to Lynchburg, it would be necessary to construct additional facilities, for which the retail company would have to pay additional facility charges.

The evidence indicated that the savings in costs would be substantial if Lynchburg were permitted to purchase part of

its gas from Transco. Such savings would be passed on to consumers. The presiding examiner, ruling against Lynchburg, had found that the retail company was not without service and that additional supplies could be obtained from its present supplier, Seaboard, albeit at higher cost than from Transco.

The record also showed that Transco's presently connected dependent customers have immediate need for ten times the unallocated capacity of the pipeline. But the commission found that the amount of gas sought by Lynchburg was so small that the effect of its allocation among Transco's present customers would be but slight. There could be no question, therefore, of impairing Transco's ability to render adequate service to its customers. *Re Lynchburg Gas Co. Docket No. G-18322, November 16, 1960.*

## Other Recent Rulings

*Protection of Service Area.* The Oregon commissioner pointed out that motor common carriers which have invested substantial sums in equipment and facilities in the territory served should, in the public interest, be protected from another operator entering the field, in the absence of a showing that the carrier's services and facilities are inadequate, insufficient, or otherwise deficient. *Re Keough (Is-ham's Transfer & Storage), FMC 2922—(Sub 1), Order No. 37456, November 2, 1960.*

*Crossing Safety Signal Cost.* The Illinois commission directed a railroad to install automatic flashing light signal protection at a certain crossing, 90 per cent

of the cost to be paid by the state and the remaining 10 per cent by the railroad. *Illinois Commerce Commission v. Chicago B. & Q. R. Co. et al. No. 46980, November 10, 1960.*

*Telephone Company Interim Notes.* The Illinois commission granted a telephone company permission to issue a series of interim notes, and a final note to a principal amount equal to the aggregate principal amount of the interim notes, upon a showing that the money received for the notes would be used to acquire, rehabilitate, and convert another telephone company to dial operation, and that the purposes of the issue were not in whole or in part reasonably chargeable

## PROGRESS OF REGULATION

to operating expenses or to income. *Re Fieldon Teleph. Co. No. 47233, November 10, 1960.*

*Emergency in Elementary School.* The Illinois commission directed a water company to provide water and sewage disposal service to an elementary school located immediately adjacent to its service area upon a showing that an emergency existed, that approximately 250 pupils had to be carried by bus to another school several miles away because of the lack of adequate water and sewage facilities and had to be returned after dark, and that the other school had to be operated on a double shift basis. *Community Consol. School Dist. No. 21, Cook County v. Buffalo Utility Co. No. 47268, November 10, 1960.*

*Railroad Freight Rates.* The Indiana commission granted a rail rate increase for line haul movements of bituminous coal within the state upon a showing that increased revenues were necessary to offset increased costs relating to wages, taxes, materials, and supplies. *Re Continental Steel Corp. et al. Nos. 27550 et al. November 23, 1960.*

*Linked Acts.* The U. S. court of appeals pointed out that a firm which leases equipment and another firm which furnishes drivers for the equipment are subject to the certificate authority of the Interstate Commerce Commission when the acts of both are linked together as integrated parts of procedure through which property is transported in interstate commerce by motor vehicles for compensation. *B & C Truck Leasing, Inc. et al. v. Interstate Commerce Commission, 283 F2d 163.*

*Option in Transfer Order.* A commis-

sion order allowing the transfer of a parcel delivery certificate, but restricting it to intracounty service with intercounty service being handled through an interchange with another carrier, or, in the alternative, authorizing intercounty service alone, would not be held invalid merely because of the optional provision, though the Florida supreme court had reservations about the wisdom of such optional features. *Rapid Delivery Service, Inc. v. Carter et al. 123 So2d 553.*

*Railroad Profit or Loss.* In determining the profit or loss of a station agency which a railroad proposed to discontinue, the Missouri commission applied its usual formula of allocating to the station one-half of the revenue derived from freight, all revenue from passenger fares and milk and cream, and one-fourth of Western Union and express, but other expenses based on operating ratio were not considered because they would remain even if the station were closed. *Re Missouri Kansas-Texas R. Co. Case No. 14,467, October 10, 1960.*

*Certificate Proceeding Continuance.* The Missouri commission refused to delay a water certificate proceeding to await the outcome of a municipal annexation proceeding then pending which, if approved by the voters, would take into the corporate limits a part of a residential area proposed to be served under the requested certificate. *Re Mark Twain Utility Co., Inc. Case No. 14,538, October 27, 1960.*

*Dividend Restrictions.* In authorizing a new gas distribution business, the Indiana commission approved a mortgage provision prohibiting cash dividends on common stock as long as the debt ratio amounts to 50 per cent or more of the

## PUBLIC UTILITIES FORTNIGHTLY

total capitalization, and a similar restriction of 60 per cent was imposed on preferred stock dividends. *Re Consumers Nat. Gas Corp. No. 28891, November 4, 1960.*

*No Abandonment by Transfer.* The Federal Power Commission dismissed an application for authority to abandon service and ruled that no abandonment was involved where a gas company proposed to sell its properties and transfer its operations to another company which would continue under the same contractual provisions, at the same rates, the identical operations and services that the transferor had been rendering. *Re Iroquois Gas Corp. Docket Nos. CP61-46, CP61-47, November 10, 1960.*

*Handling of Stock Dividends.* The manner in which fractional share interests involved in corporate stock dividend programs are handled requires the exercise of managerial discretion, the Indiana commission observed, and the corporation should be given the necessary latitude to determine at the time, and under the particular circumstances of each stock dividend distribution, the precise method to be followed in effecting such distribution. *Re Indiana Gas & Water Co., Inc. Cause No. 26902, November 10, 1960.*

*Electric Rate of Return.* The Hawaii commission allowed an electric company a rate of return of 6.59 per cent on an average depreciated rate base. *Re Lahaina Light & P. Co. Docket No. 1408, Decision and Order No. 1030, November 16, 1960.*

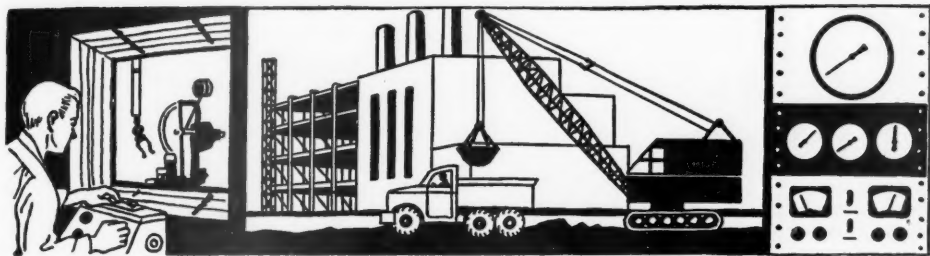
*Extended-area Service Denied.* The

Missouri commission denied requests by a number of telephone subscribers for extended-area service where it appeared, by a canvass conducted by the commission, that a majority of the telephone users in the area did not favor extended-area service or care to bear the necessary cost of it, and where the company's rate of return would not permit it to provide facilities for extended-area service without reflecting the added cost in the rate level. *Residents v. Chariton Valley Teleph. Corp. Case No. 14,211, November 18, 1960.*

*Rate Base Reflects Inflation.* In calculating a telephone company rate base substantially on net investment, the Minnesota commission added an allowance for current value reflecting the inflation in the economy during the past decade. *Re Blue Earth Valley Teleph. Co. M-4671, November 21, 1960; Re Bricelyn Mut. Teleph. Co. M-4672, November 21, 1960; Re Easton Teleph. Co. M-4673, November 21, 1960.*

*Air-line Increase.* The California commission granted Pacific Southwest Airlines a fare increase for flights made with Lockheed Electra aircraft upon a showing that the company was required by the FAA to operate the planes at reduced speed until modifications had been made in the aircraft, that the reduced speed had decreased the efficiency of the operation, and that the modifications to be made would further reduce revenues for a substantial period of time while the planes were out of service. *Re Friedkin Aeronautics, Inc. (Pacific Southwest Airlines), Decision No. 61102, Application No. 42253, November 22, 1960.*

# Industrial Progress



## Alabama Power Plans \$51,300,250 Program in 1961

ALABAMA Power Company's construction budget for 1961 will be \$51,300,250, Thomas W. Martin, chairman, announced recently. He observed that this is the fourth successive year that the company's construction expenditures will be more than fifty million.

Principal items in the 1961 budget are \$11,000,000 for the company's Coosa River projects, and over \$7,000,000 for its Warrior projects. The Coosa figure includes more than \$5,000,000 additional for Weiss Dam and power plant, initial units of which are expected to go into operation by the end of 1961. Nearly \$5,000,000 will be expended on the Logan Martin Dam at the confluence of Kelly creek and the Coosa river, for which contract for construction of the dam and power plant foundations was let in December 1960. Half a million will be spent on preliminary work for other developments on the Coosa.

On the Warrior River the Lewis Smith Dam, the initial unit of which is expected to be in operation by mid-1961, will require an additional expenditure of more than \$6,250,000. Preliminary construction for the installation of a power plant in the government-owned Bankhead Lock and Dam will call for an expenditure of over \$1,300,000.

## Highway Trailer Utility Division Shows New General Service Body Line

COMPLETE new line of general service bodies, conversion kits, and side boxes for use on  $\frac{1}{2}$ ,  $\frac{3}{4}$ , and full pickup truck chassis was introduced recently by the Utility Division of Highway Trailer Industries, Inc.

The Highway general service body

line is designed for universal application in utility construction and maintenance, the contracting trades, and automotive and airline maintenance and service use. They are available for all popular makes of trucks, including those with dual rear tires.

The Model HB general service body is constructed of rustproof galvaneal steel. Wheel wells are undercoated for additional protection.

Inside floor space is 48½ inches wide, with lengths of 75 to 104 inches, depending on chassis. Overall width is 77½ inches; height is 42 inches overall, and 29 inches from floor to top. Side boxes are 14½ inches deep.

General service bodies have hinged tail gate with chain and hooks for positioning and locking. Sliding type roof can be furnished as an option. Units can be shipped knocked-down for shipment and assembled in the field with no difficulty.

HC conversion kits are similar in construction and details to the general service bodies. Each side assembly consists of front, horizontal, and lower rear compartments. Rear and horizontal compartment doors have full length bottom hinges. Front compartment can be supplied with or without adjustable shelves or trays.

Model HT side boxes, also constructed of galvaneal steel, are made in 70, 90, and 100-inch lengths, 12 inches wide, and 14 inches deep. The 70-inch unit has a single 65 x 10-inch door, the 90-inch unit has two doors, each 41 x 10 inches, and the 100-inch unit has two doors, each 46 x 10 inches. All doors have continuous hinge with brass pin, and are equipped with chain stop.

Highway Trailer will continue manufacture of previous designs of utility service bodies. The company is also a major maker of earth boring and related construction equipment, and the third largest manufacturer of truck-trailers and cargo-containers.

## Delta-Star's New C-Bar Conductor System

A NEW medium capacity integrated current collector system, designated the "C-Bar Conductor System," has been announced by Delta-Star Electric Division, H. K. Porter Company, Inc. The new system is used where load current requirements do not warrant the use of high capacity integrated systems.

Developed by the division's Electric Service Works in Philadelphia, the C-Bar Conductor System is used for all types of a-c and d-c current collection on Main Runway and Cross Travel for traveling cranes, material handling units, machine tools, etc. in factories, mills and docks.

The new system is supplied complete with insulators, hangers, conductors, and collectors, integrated as a package. It is ready for mounting on the wall of a building or on a structural support.

Featuring compactness, rugged design, and economy, the new system requires a minimum of space and is available in bronze, aluminum or copper. Continuous conductor current ratings are 350, 450, and 550 amperes. Collector ratings range from 50 to 250 amperes.

(Continued on page 16)

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## INDUSTRIAL PROGRESS—(Continued)

### \$305 Million Spending Plan Announced by Con Ed

A RECORD spending of \$305 million, an increase of \$40 million over 1960, is scheduled by Consolidated Edison Co. of New York, Inc., for 1961, it was announced recently by Charles E. Eble, president. Most of the outlay will be for new equipment, machinery and buildings.

"For the five-year period, 1961 through 1965, the capital budget calls for the expenditure of well over \$1.1 billion including payments to New York city for the subway power plants," Mr. Eble said.

"By far the greater part of this money must be spent to expand the company's electric system to supply the needs of our more than 2.8 million electric customers."

### Public Service Elec. & Gas to Spend \$150,000,000 in 1961

NEW records for demand and output of both electricity and gas were established during 1960, according to an announcement by Donald C. Luce, president of Public Service Electric and Gas Company. A record electric peak load of 2,797,000 kilowatts, 8 per cent higher than the 1959 peak load, occurred on August 30th and on the same day there was a record day output of 49,442,800 kilowatthours of electricity, also 8 per cent above the prior year's record. On December 13, a day's sendout of 6,068,953 therms of gas set a new maximum, 9 per cent above that of 1959. Total output of electricity amounted to 13,356,903,600 kilowatthours and 900,937,644 therms of gas were sent out in 1960, 5 per cent and 12 per cent, respectively, greater than in 1959.

During the 10-year period 1950-1960 the company's sales of electricity more than doubled and 1960 gas sales were three times 1950 sales. Ten years ago only 49,000 homes and buildings were heated by gas compared with more than 300,000 served by Public Service at present. Additions and improvements in plant and equipment since 1950 have totaled more than \$1,070,000,000 and plans for 1961 call for the expenditures of an additional \$150,000,000 for facilities to keep pace with continually increasing demands for electric and gas service.

Three major additions to the company's rapidly growing generating capacity are in progress. At the new Mercer generating station, the first of two 320,000 kilowatt turbine generators was placed in service last month, and the second unit, of similar size, is expected to be placed in service this Spring. At the Sewaren generating station, an additional turbine generator unit with a capacity of 342,000 kilowatts, is being installed. This additional unit, scheduled for service in 1964, will raise Sewaren station's capacity to 817,000 kilowatts, largest in the company's system.

On property adjacent to the existing Marion generating station, preparation of the site has begun for construction of the Hudson generating station, a new plant in the system. Initially, Hudson will have a 342,000-kilowatt generator, planned for operation in 1964.

When these new major installations have been completed and placed in service and some low-pressure generating units at the Marion Station retired, the



## INDUSTRIAL PROGRESS—(Continued)

al installed capacity of the Pub-Service steam generating stations will be 4,396,500 kilowatts, 53 per cent more than the capacity at the beginning of 1960.

Recently placed in service were new switching stations at Gloucester and East Rutherford.

During 1961, the company's expansion plans contemplate the installation of 2,000 miles of overhead and underground wires, 7,000 additional distribution transformers, 6,100 new street lights, 11,000 poles and 22,000 electric meters. In addition, 52,000 meters will be replaced with meters of larger capacity to provide for customers' increasing demands.

Gas heating installations increased about 29,000 during 1960, and approximately the same number is expected to be added this year. To provide gas service for these new installations and for the increasing needs of present customers, the company will install approximately 24,000 services and 27,700 meters and 60 miles of mains.

### Carolina Pwr & Lt Plans \$76,000,000 Program

DIRECTORS of Carolina Power & Light Company recently approved the largest construction budget in the company's history.

An all-time high of \$76,000,000 was authorized for construction, with \$8,000,000 earmarked for expansion this year and the remainder to complete projects begun during 1961.

Louis V. Sutton, CP&L president and chairman of the board, said that approximately \$20,000,000 is earmarked in 1961 for new generating capacity and about \$18,000,000 for lines, substations, transformers, meters and other facilities "necessary to supply the increased energy requirements of customers and to connect new customers."

CP&L spent \$26,800,000 on new construction in 1960, \$12½ million of that going for new generating capacity. During the year CP&L completed a 250,000-horsepower steam-electric plant at Hartsville, S. C., a 1,000-horsepower unit at the Tillery plant near Mount Gilead, and broke ground for a 320,000 horsepower steam-electric generator at its Boldson, a new plant.

In addition, it joined Duke Power, Virginia Electric and Power and South Carolina Electric & Gas to break ground in October for the Peachtree's first atomic power plant at Warr, S. C.

The Parr plant is scheduled for completion in 1962, as is the new steam-electric unit at Goldsboro. The latter will be the world's first coal-fired generator monitored and actually controlled by an electronic computer.

CP&L ended 1960 with 425,000 customers on its lines in the two Carolinas. Electric energy sales were up 10 per cent over 1959.

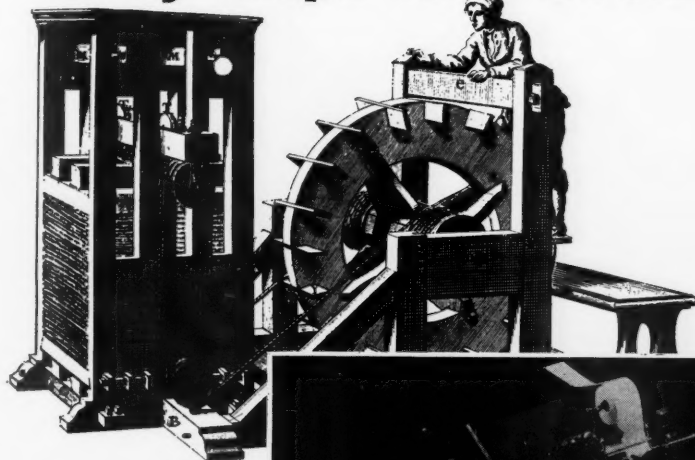
A growing acceptance of electric home heating was cited as a significant

sales booster in 1960, during which CP&L adopted a lower all-electric rate and offered free "housepower" panels to all-electric home owners. CP&L has 3,500 electrically-heated homes on its lines now.

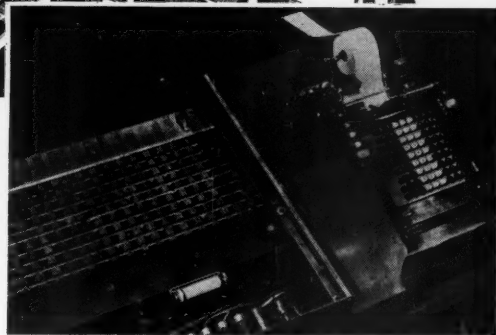
CP&L's residential customers averaged using 5,345 kilowatt-hours of energy in 1960—about 40 per cent above the national average.

The company's service area had record-breaking industrial expansion  
(Continued on page 18)

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in 1960, with industries announcing plans to spend approximately \$100 million for new and expanded plants to create 12,500 new jobs and \$38 million new annual payroll.

### New Computer Service Beamed At Small, Medium-Size Companies

A NEW computer service, which will make electronic data processing available for the first time to companies as small as a neighborhood store with one cash register, has been opened in New York City by the National Cash Register Company.

The Dayton, Ohio, company plans to offer similar service in major cities throughout the United States, it was announced.

Robert S. Oelman, NCR president, said the service would help boost the efficiency of small and medium-size companies by providing them with a more detailed picture of their operations than they could obtain before. The New York service will be located in NCR's Manhattan headquarters, 50 Rockefeller Plaza.

Equipped with a new \$75,000 computer, the NCR 390, the service will automatically prepare sales and inventory reports, payrolls, customer bills and other business records.

The new service will make a computer available to thousands of companies that are too small to be handled by existing data processing bureaus, the company said.

NCR also plans to open larger data processing centers in New York, Los Angeles and Dayton, Mr. Oelman said. These centers will use the large-scale NCR 304 EDP system.

### Ohio Power Company to Spend \$25,500,000 in 1961

OHIO Power Company will spend approximately \$25,500,000 during 1961 for construction of new facilities and the expansion of existing equipment, it has been announced recently by A. N. Prentice, vice president and general manager.

The planned expenditure for 1961 is less than the \$39,500,000 invested in 1960, primarily because of the completion or near completion last year of generating plant expansions which cost nearly \$23-million during the year but will amount to only a little over \$6-million in 1961, according to our present plans.

On the other hand, investments by the company in other projects of expansion and improvements are to be increased in 1961 in such categories as transmission and distribution facilities and in a wide variety of miscellaneous projects, the general manager explained.

One of the largest single expenditures by the company last year was for completing construction of a giant 500,000-kilowatt steam-electric generating unit at Philip Sporn plant, near New Haven, W. Va.

The unit, which cost approximately \$65-million, required an investment of nearly \$21-million in 1960. The big generator, one of the two largest in the world, gives Philip Sporn plant a generating capacity of 1,100,000-kw, making it the largest power plant on the seven-state American Electric Power System.

In general classifications, the forecast for 1961 is divided as follows:

Power plants .....	\$ 6,208,670
Transmission substations .....	1,271,500
Distribution substations .....	1,028,000
Transmission lines ....	3,884,000
Distribution lines .....	10,680,500
Coal lands and equipment .....	655,000
General .....	1,781,000
<b>TOTAL .....</b>	<b>\$25,508,670</b>

### Cincinnati Gas & Electric Has \$47,000,000 Program

CINCINNATI Gas and Electric Company has announced a \$47,000,000 program for this year. Included in the program is the construction of a fifth unit of 250,000-kw capacity at the Walter C. Beckjord station near New Richmond, Ohio. It also will require new transmission facilities to distribute the power.

When the unit is completed in the fall of 1962 it will raise the Ohio utility's total generating capability to 1,510,000 kw.

Ernest S. Fields, president, said the utility would spend an average of more than \$46,000,000 a year in each of the next three years. It plans to borrow about \$30,000,000 this year to assist in financing the program, he said.

Mr. Fields said that expenditures for facilities such as mains, meters, services and other phases of the operation ran in excess of \$20,000,000 a year.

### Panhandle Eastern Pipeline Plans \$77,000,000 Expansion

PANHANDLE Eastern Pipeline Company recently announced plans for a \$77 million expansion of transmission lines and pumping facilities.

Mr. F. J. McElhatton, vice president in charge of the gathering and transmission department, said the expansion plan would involve a Panhandle subsidiary, Trunkline Gas Co., Houston, Texas. Under the plan, Panhandle and Trunkline would add facilities to provide a 30 per cent increase in deliveries to 46 utility customers in Missouri, Kansas, Michigan, Ohio, Indiana and Illinois.

### New Powers-American Unit Saves Manpower and Money

McCABE-POWERS Body Company, St. Louis, has announced production of a new Powers-American body and equipment combination designated the Series 555 two-man line construction and maintenance body.

According to Brooke Daly, first vice president, the Series 555 enables a two-man crew to handle construction and maintenance work normally requiring three or four men. "The unit saves manpower and time on the job," he stated, "and, especially important, provides big truck performance at a price that is extremely economical on new equipment budgets."

The unit consists of a 112 in. body featuring reduced overhang at rear and designed for an 84 in. CA chassis, equipped with the firm's Series PM-30 "Pole-Master" derrick and Series DF-1 "Earth-Master" digger.

The body contains bin and sheave compartments, plus ample hooks, racks, troughs and open storage space for tools and materials needed on routine and emergency jobs. Underfloor winch line and numerous other optional accessories can be furnished to meet specific work needs.

Derrick, which handles four-ton loads and 55 ft. poles, can be mounted on either rear corner of the body. Vertical operating range extends from carrying position to ground; horizontal range reaches from one side of the body to the other. In addition, hydraulically spotting and holding any position, the derrick head sheave can be hydraulically extended and retracted a distance of 56 in.

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## Marquardt Designs Atomic Reactor

THE Nuclear Systems Division of the Marquardt Corporation has designed a nuclear plant for the production of electrical power at costs competitive with conventional steam-electric plants in the 5,000 to 20,000 electrical kilowatt range. Called the Direct Cycle Diphenyl Reactor (DCDR), the Marquardt concept represents a new approach to the design of small nuclear powerplants. As the name implies, the DCDR uses the reactor coolant, diphenyl, as the working fluid in the energy conversion cycle.

Diphenyl is an aromatic hydrocarbon consisting of two benzene rings. The properties of diphenyl make it possible to expand saturated diphenyl in a turbine without condensation. Thus, moisture separation and preheat required for steam turbines are eliminated. In addition to the above saving, the low vapor pressure and non-corrosive nature of diphenyl also allow a much simpler turbine design with attendant cost savings over conventional steam turbines. The low pressure, non-corrosive diphenyl coolant allows the use of low-alloy steel throughout the plant, resulting in further cost reductions.

The nuclear reactor uses graphite as a combined neutron moderator and fuel jacket, which results in an extremely high temperature capability for the fuel elements. The use of graphite also lowers the decomposition of the coolant to almost negligible values.

The DCDR was designed especially for the small electrical system. It is also ideally suited for arid regions, since the waste heat from the energy conversion system can be easily rejected to the air. The DCDR is attractive for industrial plants, because of the possibility of combined electrical and process heat applications. The use of the DCDR for marine propulsion appears to be technically feasible and economically attractive.

The DCDR concept signifies the first entry for Marquardt into the nuclear reactor area. The company heretofore has been identified in the nuclear field primarily for its work on

the nuclear ramjet program, Project PLUTO.

## HAM Shipped to G-E

A NEW electronic High-speed Automatic Monitor (HAM) System for control of nuclear reactors was shipped on December 2, 1960 to GE Hanford Atomic Products Operation, Richland, Washington. The quarter million dollar system is the first of its kind and was built by Monitor Systems, Inc., a subsidiary of Epsco, Inc., Fort Washington Industrial Park, Fort Washington, Pa., to demonstrate that nuclear processes can be controlled on a high-speed automatic basis.

Harry H. Rosen, vice president and general manager of Monitor Systems, stated that the HAM System measures 116 reactor temperatures at a speed of 5,000 per second with a degree of reliability never before attained. Mr. Rosen pointed out that the amazing reliability of the HAM System was necessary because of the possibility of runaway fission if the nuclear control system should fail. Reliability is in the order of 50,000-

000 component unit hours.

Bernard M. Gordon, president of Monitor Systems and Epsco, stated that the HAM System has 35,000 electronic components and compared reliability of the system to perfect operation of 100 TV sets for a full year without a single failure of any kind.

Leighton A. Meeks, Project Manager of the new system, stated that another outstanding feature is "self-checking" through a built-in memory. In other words, the HAM System trouble-shoots itself. It immediately notifies the operator if failure occurs and pinpoints the area of failure.

Mr. Meeks said that the reliability of the system was established by an acceptance test of unprecedented severity. Continuous operation for 1,250 hours was required with no more than a single high temperature false alarm or more than two false alarms of other types. In other words, only one or two false alarms (depending on the type) were permitted in a total of 22,500,000,000 readings. The rigorous acceptance test was completed Monday, November 21, 1960.

*This announcement is under no circumstances to be construed as an offer to sell or as a solicitation of an offer to buy any of these securities. The offering is made only by the Prospectus.*

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# INDEX TO ADVERTISERS

## A

*Allen & Company	20
*Allied & Chemical Corporation—Plastics & Coal Chemicals Division	
*Allis-Chalmers Manufacturing Company	
American Appraisal Company, The	20
*American Motors Corp.	
*American Telephone & Telegraph Co.	4
Analysts Journal, The	

## B

*Babcock & Wilcox, The	
*Bell Telephone System	20
Black & Veatch, Consulting Engineers	
*Blyth & Company, Inc.	20
Boni, Watkins, Jason & Co., Inc.	25
Burns & McDonnell, Engineers	20
Burns & Roe, Inc.	
*Burroughs Corporation	

## C

Carter, Earl L., Consulting Engineer	25
Coffin & Richardson, Inc.	25
*Coleman Company, Inc., The	
Columbia Gas System, Inc., The	Inside Back Cover
*Combustion Engineering, Inc.	15, 16, 20
Commonwealth Associates, Inc.	15, 16, 20
Commonwealth Services, Inc.	15, 16, 20
Consolidated Gas and Services Company	25

## D

Dames & Moore	21
Day & Zimmermann, Inc., Engineers	21
*Dodge Division of Chrysler Corp.	21
Drake & Townsend, Inc.	21

## E

*Eastman Dillon, Union Securities & Company	
*Ebasco Services Incorporated	
*Electro-Motive Division, General Motors	
Empire Gas Engineering Company	21

## F

*First Boston Corporation, The	21
Ford, Bacon & Davis Inc., Engineers	21
Foster Associates, Inc.	22
Francisco & Jacobus	22

## G

Gannett Fleming Corddry and Carpenter, Inc.	25
General Electric Company	Outside Back Cover
Gibbs & Hill, Inc., Consulting Engineers	22
Gilbert Associates, Inc., Engineers	22
Gilman, W. C., & Company, Engineers	22
*Glore, Forgan & Company	
*G&W Electric Specialty Company	

## H

*Halsey, Stuart & Company, Inc.	22
*Harriman, Ripley & Company	22
Harza Engineering Company	
Hoosier Engineering Company	
*Hough, Frank G., Company, The	

## I

*International Business Machines Corp.	25
Internuclear Company	5
Irving Trust Company	

Professional Directory ..... 20-25

\*Fortnightly advertisers not in this issue.

## J

Jackson & Moreland, Inc., Engineers	25
Jensen, Bowen & Farrell, Engineers	23

## K

Kellogg, M. W., Company, The	23
*Kidder, Peabody & Company	
*Kuhn Loeb & Company	23
Kuljian Corporation, The	

## L

*Langley, W. C., & Co.	23
Leffler, William S., Engineers Associated	
*Lehman Brothers	
*Loeb, (Carl M.) Rhoades & Co.	23
Lougee, N. A., & Company	25
Lutz & May Company, Consulting Engineers	

## M

Main, Chas. T., Inc., Engineers	23
*McCulloch Corporation	
Merrill Lynch, Pierce, Fenner & Smith, Inc.	19
Miner & Miner, Consulting Engineers	25
Moloney Electric Company	Inside Front Cover
*Morgan Stanley & Company	

## N

National Association of Railroad & Utilities Commissioners	11
--	----

## O

*Osmose Wood Preserving Company of America, Inc.	
--	--

## P

Pioneer Services & Engineering Company	23
Pittsburgh Testing Company	25
*Plastics and Coal Chem. Div., Allied Chemical Corp.	
*Pole Sprayers, Inc.	

## R

Ransom, R. A., Company, Inc.	24
Recording & Statistical Corporation	17
Remington Rand Div. of Sperry Rand Company Corporation	7

## S

Sanderson & Porter, Engineers	24
Sargent & Lundy, Engineers	24
Schulman, A. S., Electric Co., Engineers	25
*Smith Barney & Company	24
Standard Research Consultants, Inc.	16, 24
Stone and Webster Engineering Corporation	9
Stone & Webster Service Corporation	25
Sverdrup & Parcel, Engineers & Consultants	


## T

*Texoma Enterprises, Inc.	
---------------------------	--

## W

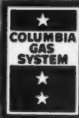
*Westinghouse Electric Corporation	24
*White, Weld & Co.	25
Whitman, Requaardt and Associates	
Williams, A. W., Inspection Co., Inc.	





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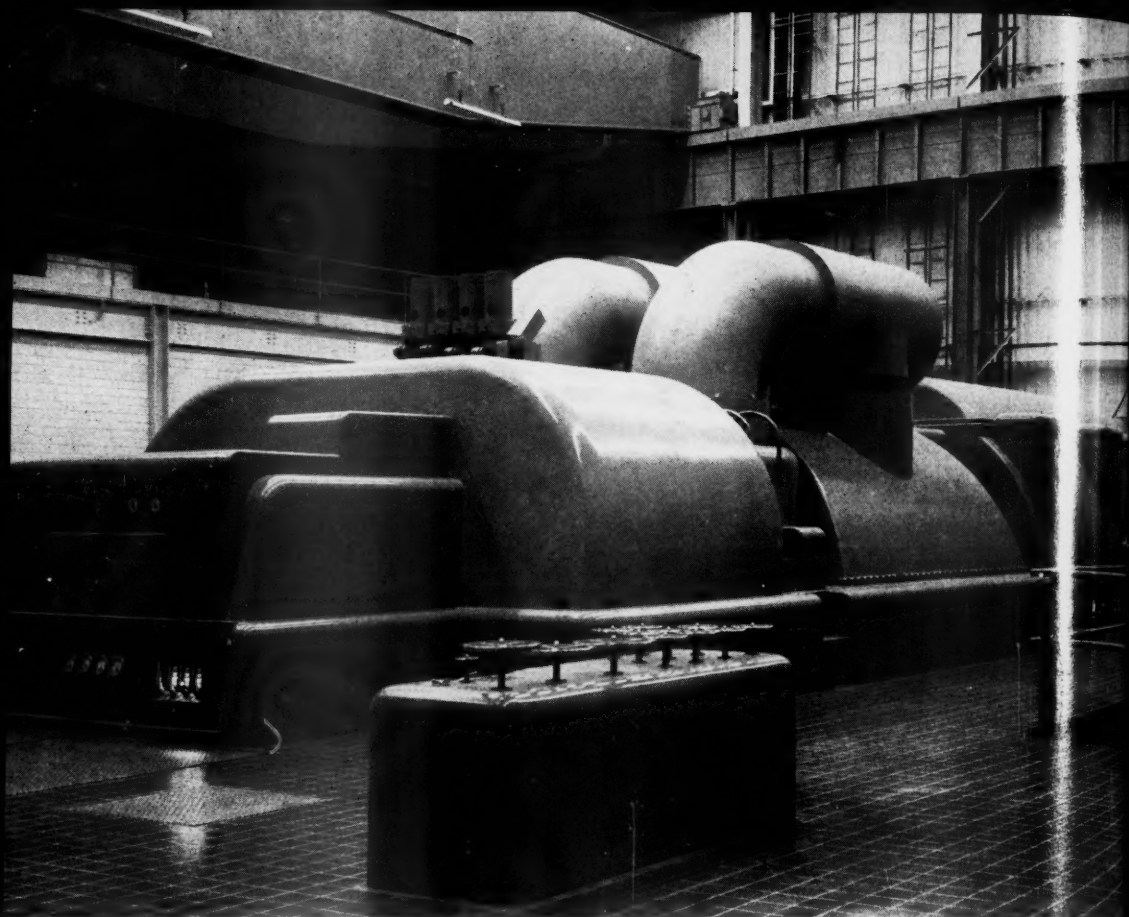


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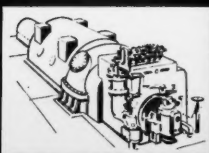
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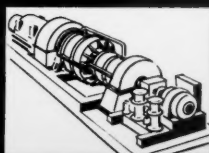
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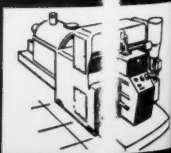
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